



*Helping America's
immigrant and unbanked populations
attain homeownership.*



Agenda

Overview

The ITIN

Origination Basics

Underwriting Guidelines

- Criteria
- Identity
- Credit
- Income
- Best Practices

Summary



Who is MGIC?

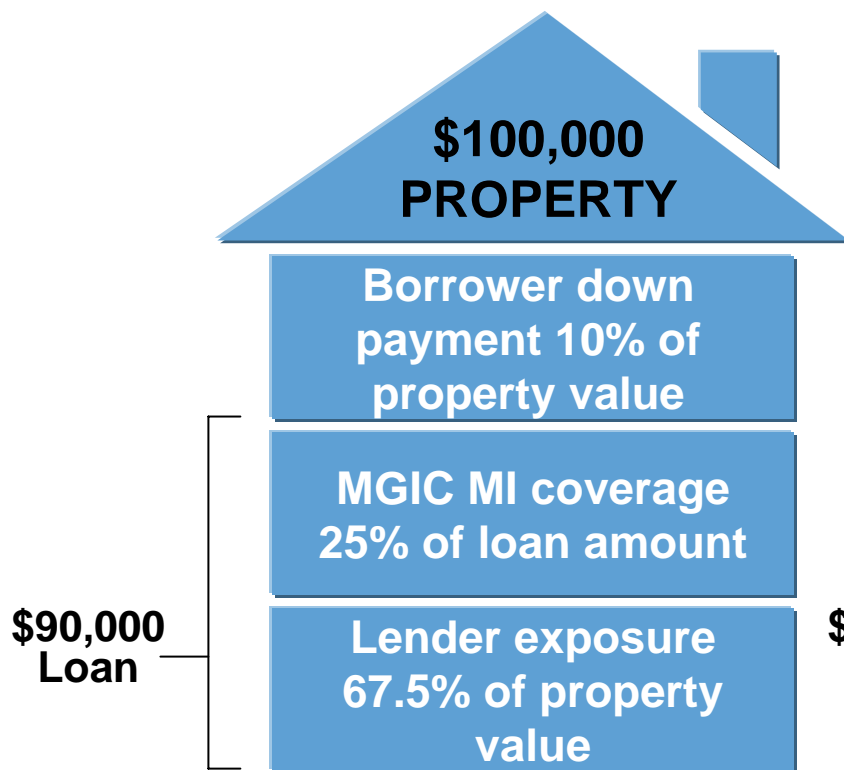
- First private mortgage insurance company, established in 1957, headquartered in Milwaukee
- Nation's leading private mortgage insurer with highest market share
- Serves more than 5000 lenders nationwide
- Facilitates homeownership by providing credit enhancement solutions that meet customers' needs

Mortgage insurance is a financial guarantee in which an insurer assumes a portion of a lender's risk in making a mortgage loan.

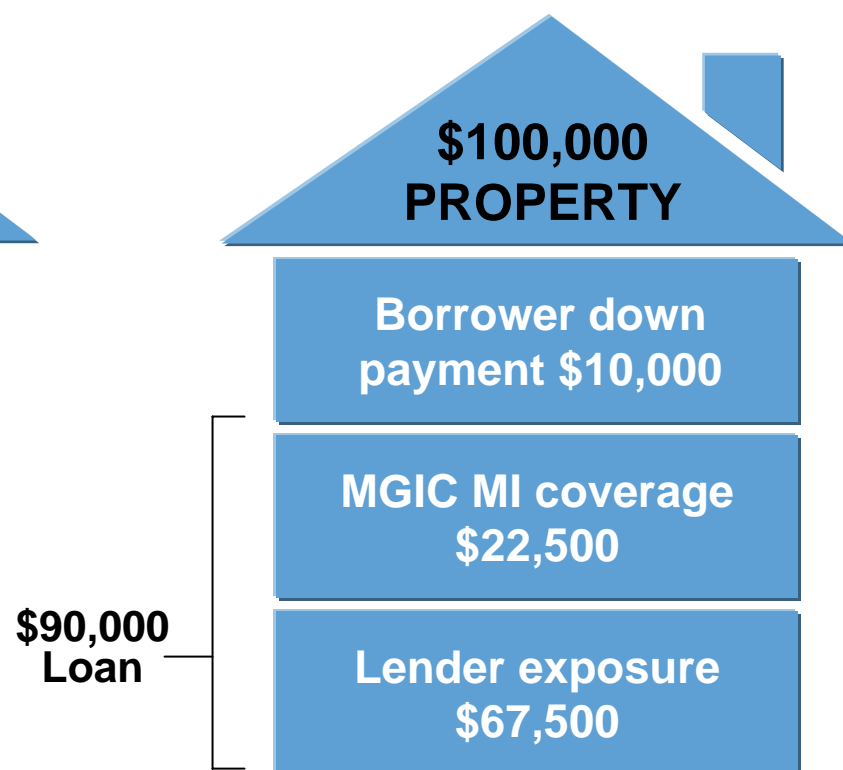
powered by **MGIC**

How mortgage insurance (MI) works

Expressed in %



Expressed in \$





Advantages of MGIC's MI

For lenders...

- Risk protection
- Increased customer base and commissions, lower delivery fees, one loan to underwrite/process
- Increased resources: Contract Underwriting, Capital Markets, Lead Generation, Marketing, Homebuyer Education, eMagic, Emerging Markets, etc.

For borrowers...

- Become homeowners sooner, gain tax advantages
- Fixed, predictable cost; solid alternative to risky mortgage loans
- Financial flexibility, payment options
- Cancelable



Overview

Immigrant Population (Foreign-Born)

- Approximately 1.2 to 1.5 million visas are issued annually, enabling foreign-born individuals to enter the country lawfully
 - Work and residency
 - Residency only
 - Most will be issued Social Security Numbers (SSNs)
- 34 million immigrants (documented & undocumented) as of March 2004¹

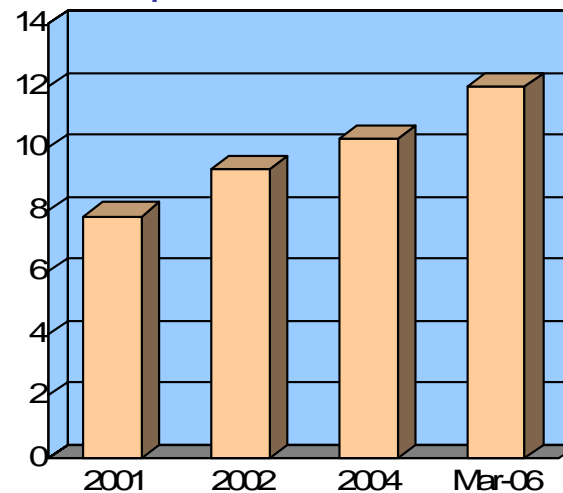
¹ Center for Immigration Studies, Nov. 2004



Overview

Undocumented Population

- An “undocumented” individual resides in the US without the explicit approval of the Federal Government
 - 11.5-12 million undocumented residents¹
 - Annual net gain of 500,000 undocumented residents²
 - Unauthorized workers comprise of 5% of US labor force (7.2m)³



¹ Pew Hispanic Center, March 2006

² Department of Homeland Security, Sept. 2003

³ Pew Hispanic Center, March 2006

■ Undocumented residents in millions



Overview

Unbanked Population

- An “unbanked” individual does not have a transaction account with a traditional financial institution
 - 22% of non-whites including Hispanics are unbanked¹
- For homeowner population in the bottom 20% of income, equity represents 80% of assets²

¹Federal Reserve Survey of Consumer Finances, 2001

²Information Policy Institute, July 2005



Overview

The Marketplace Reality

- Success of these neighborhoods hinges partially on the ability of its residents to gain economic stability
- Homeownership is a key part of economic stability for families
- Many undocumented residents have settled in our nation's neighborhoods
- Not all with housing needs have proof of authorized residency or work status
- Regardless of residency or work status (undocumented residents are paying federal income taxes)



Overview

Why is MGIC Focusing on this Market?

- Help an Emerging Market emerge, creating a legacy of ownership for future generations
- Provide homeownership opportunities to working and taxpaying families with housing needs regardless of residency status
- Curb predatory lending which is hurting families and neighborhoods
- Acknowledge growing US immigrant population



The ITIN

What is an ITIN?

- ITIN stands for “**I**ndividual **T**ax **I**dentification **N**umber”
- IRS-issued taxpaying identity for borrowers who don't have, and are not eligible to obtain, an SSN
- Same 9-digit format as SSN (9xx-xx-xxxx)



The ITIN

ITIN Issuance and Value

ITIN issuance....

- ITINs are issued regardless of immigration status because both resident and non-resident aliens may have tax-filing needs
- 7.2 million ITINs issued by IRS between 1996 and 2003
- ITINs topped 1 million per year since 2001

Value...

- Over half million tax returns were filed in 2001
- Contributed \$305 million to US Treasury in 2001 alone
- Social Security and Medicare benefits are \$8.5 billion annually

The ITIN

Obtaining an ITIN

Form W-7
 (Rev. December 17, 2003)
 Department of the Treasury
 Internal Revenue Service

Application for IRS Individual Taxpayer Identification Number
 ▶ See instructions.
 ▶ For use by individuals who are not U.S. citizens or permanent residents.

OMB No. 1545-1480

An IRS individual taxpayer identification number (ITIN) is for Federal tax purposes only.

FOR IRS USE ONLY

Before you begin:

- Do not submit this form if you have, or are eligible to obtain, a U.S. social security number (SSN).
- Getting an ITIN does not change your immigration status or your right to work in the United States and does not make you eligible for the earned income credit.

Reason you are submitting Form W-7. Read the instructions for the box you check. **Caution:** If you check box b, c, d, e, or g, you must file a tax return with Form W-7 unless you meet one of the exceptions (see instructions).

a Nonresident alien required to obtain ITIN to claim tax treaty benefit
 b Nonresident alien filing a U.S. tax return and not eligible for an SSN
 c U.S. resident alien (based on days present in the United States) filing a U.S. tax return and not eligible for an SSN
 d Dependent of U.S. citizen/resident alien } Enter name and SSN/ITIN of U.S. citizen/resident alien (see instructions) ▶
 e Spouse of U.S. citizen/resident alien }
 f Nonresident alien student, professor, or researcher filing a U.S. tax return and not eligible for an SSN
 g Dependent/spouse of a nonresident alien visa holder
 h Other (see instructions) ▶
 Additional information for a and f. Enter treaty country ▶ and treaty article number ▶

Name
 (see instructions)
 Name of the individual

| 1a First name | Middle name | Last name |
|---------------|-------------|-----------|
| | | |

Not a valid work ID

Doesn't change immigration status

Doesn't mean you now can claim the EITC

Changes made in December 2003



The ITIN

ID Sources for Obtaining an ITIN

- Passport
 - US Citizenship and Immigration Services (CIS) visa
 - CIS photo identification
 - US driver's license
 - US military ID card
 - Foreign driver's license
 - Foreign military ID card
 - **Current national ID card**
 - US state ID card
 - Foreign voter's registration card
- Matricula Consular*

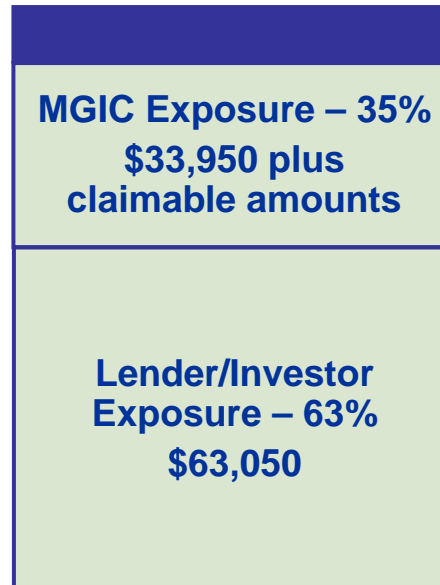


Origination Basics

MGIC Takes Top-Layer Risk

(Example: \$100,000, 97% LTV loan)

3% Down payment
\$3000





Origination Basics

MGIC MI Pricing

Standard “A” Premium (5-yr ARM):

- 97% LTV / 35% Coverage – 0.96%
- 95% LTV / 30% Coverage – 0.78%
- 90% LTV / 25% Coverage – 0.52%
- 85% LTV / 12% Coverage – 0.32%

Lender/Investor determines coverage level



Origination Basics

Marketing and Outreach

- Focus on “taxpaying” individuals, as opposed to “ITIN” holders
- Begin with “word-of-mouth”
- Use targeted media, not mass media
- Develop “plain language” documents for borrowers and nonprofits
- Partner with nonprofit counseling and advocacy organizations to spread the word



Origination Basics

Homebuyer Education and Counseling

Nonprofits

- Trusted advisor to the market you're trying to reach
 - Joint homebuyer seminars
 - Set borrower expectations
- Improve the quality of borrowers, reducing time spent working on long-term prospects, thus increasing productivity
- Meet pre-purchase education and counseling requirements provided they are an MGIC-approved SmartPath counseling agency

MGIC's Homebuyer Education and Counseling (HEC) Network

- MGIC's HEC Network includes 400+ nonprofit counseling agencies
- Quality providers of face-to-face counseling; MGIC monitors performance of borrowers
- Nonprofits may apply to join the HEC Network

powered by **MGIC**



Origination Basics

Best Practices

- Loan officers can help borrowers come prepared by having them obtain tax transcripts from the IRS at no cost before taking the loan application
 - 1-800-829-1040 between 7 am and 10 pm
 - “2” – Personal tax account
 - “2” – Personal tax account
 - Enter your ITIN
 - “1” – Transcripts
 - Enter the numbers in street address
 - Enter the year of the return you are requesting
 - Transcripts will be mailed within 10 days



Origination Basics

Is Your Borrower Ready?

- Once borrowers receive transcripts for 2 most recent tax years, they should provide:
 - 2 years' 1040s
 - 2 years' tax transcripts (matching ITIN)
 - All supporting W-2s
 - Pay stub with YTD earnings (30-day period)
 - All additional documentation required at application
- Must have proof of tax-paying identity (the identity that is used for filing federal income tax returns)
- Must have 2 years' **consistent** income and employment history in the U.S. (of which the most recent 12 months of employment in same location as property)
- Must meet minimum credit requirements



Origination Basics

When things don't match...

- Has the borrower filed amended returns?
- Are any W-2s or 1099s missing?
- If married and filing jointly, did the spouse also provide W-2s/1099s?



Underwriting Guidelines – Criteria

Eligible Loan/Transaction Types

- 1-unit properties: 97% LTV / 105% CLTV
2-unit properties: 95% LTV / 105% CLTV
- Fixed-rate mortgage, 5-yr ARM
- Purchase or Rate & Term refi (Cash-out refi – *not allowed*)
- Max loan amount: agency-conforming loan limits



Underwriting Guidelines – Criteria

Equity, Gifts and Reserves

- Equity: min 3%
- Borrower's equity: lesser of \$500 or 1%
- Cash to Close: balance of funds must be verified; increase in average balance or deposit of \$5,000+ must be sourced
- Reserves: none required
- Gifts: seller-subsidized gifts/grants are not eligible (example: Nehemiah, AmeriDream)
- Secured gifts, grants, and loans must be included in CLTV (provider must be pre-approved by MGIC)



Underwriting Guidelines – Identity

Borrower's Identity

Tax-paying identity

- Identity used on the loan application
- Only one tax-paying identity; appears on tax returns
- Can be an ITIN or SSN

Wage-earning identity

- Identity used to obtain employment
- One or more wage-earning identities
- U.S. residency, income and employment consistency and verification
- Should be a SSN



Underwriting Guidelines – Identity

Tax-paying Identity Must be Documented

- IRS “authorizing letter” or ITIN card, *and*
- Government-issued photo ID corroborating borrower tax-paying ID name
 - Matricula Consular (or other foreign consulate or voting rights cards)
 - Valid visa, Passport
 - Valid driver’s license



Underwriting Guidelines – Credit

Credit Requirements

Minimum requirements for all borrowers

- 3 open and active credit references for most recent year (1 must be a housing payment reference)
- A combination of traditional and nontraditional credit is allowed
- Must also meet program credit requirements for payment history, judgments, bankruptcies, and foreclosures



Underwriting Guidelines – Credit

Two Credit Reference Option

- A borrower with a housing payment reference and one other nontraditional credit reference may be eligible if:
 - There is no traditional credit on the credit report
 - Pay history and other credit criteria are met
- Premiums will be derived from MGIC's Expanded Criteria rate card (approximately 25% higher)



Underwriting Guidelines – Credit Credit Documentation

A credit report is required for each borrower under their *tax-paying identity*

- RMCR from an independent credit-reporting agency, or
- Three repository, in-file merged/purged credit report



Underwriting Guidelines – Credit

Credit Documentation

[REDACTED] ORDER NUMBER: 7WNw0 Page: 1
 [REDACTED] STREET SUITE [REDACTED] REPOSITORY SOURCE: EFX XPN TU
 [REDACTED] DATE ORD: 03/22/2005
 PHONE: ([REDACTED]) [REDACTED] 6280 FAX: ([REDACTED]) [REDACTED] 3009 DATE DEL: 03/22/2005
 REPORT PREPARED FOR: [REDACTED] LOAN NUMBER: LT0000076865013701
 [REDACTED] INDIV/JOINT REPORT: INDIVIDUAL
 [REDACTED] PRICE: 10.45
 [REDACTED] ACCOUNT NUMBER: [REDACTED] 70
 [REDACTED] ORDERED BY: [REDACTED] JIMENEZ

BORROWER'S INFORMATION

NAME: [REDACTED]
 SSN: 9[REDACTED]-70-[REDACTED]
 CURRENT ADDRESS: [REDACTED]

CO-BORROWER'S INFORMATION

NAME: [REDACTED]
 SSN: [REDACTED] AGE: [REDACTED]

OWN/RENT:
 NUMBER OF DEPENDENTS:

SINCE:
 MARITAL STATUS:

NO EMPLOYMENT INFORMATION AVAILABLE

SUMMARY REPORT

| TRADE TYPE | # | TOTAL W/BAL | TOTAL BALANCE | TOTAL PYMT | TOTAL P/D | 30 | 60 | 90 | DATE LAST P/D |
|--------------|----------|-------------|---------------|-------------|-----------|----------|----------|----------|---------------|
| REAL EST | 0 | 0 \$ | 0 \$ | 0 \$ | 0 | 0 | 0 | 0 | |
| INSTALL | 0 | 0 \$ | 0 \$ | 0 \$ | 0 | 0 | 0 | 0 | |
| REVOLVING | 0 | 0 \$ | 0 \$ | 0 \$ | 0 | 0 | 0 | 0 | |
| COLLECT | 0 | 0 \$ | 0 \$ | 0 \$ | 0 | - | - | - | |
| OTHER | 0 | 0 \$ | 0 \$ | 0 \$ | 0 | 0 | 0 | 0 | |
| TOTAL | 0 | 0 \$ | 0 \$ | 0 \$ | 0 | 0 | 0 | 0 | |

PUBLIC RECORDS : LIENS : JUDGMENTS : FORECLOSURE : BANKRUPTCY : OTHER : TOTAL
 TOTAL NUMBER 0 0 0 0 0 0 0

INQUIRIES: 3
 OLDEST TRADE OPEN :

NEW TRADES: 0



Underwriting Guidelines – Credit

Credit Documentation

| CREDIT GRANTOR ACCOUNT NUMBER | DATE OPENED | LAST DT REPORTD | HIGH CREDIT | BALANCE OWING | CURR RATE | HISTORY 30 60 90 |
|----------------------------------|----------------|--------------------|----------------|------------------|--------------|---------------------|
|----------------------------------|----------------|--------------------|----------------|------------------|--------------|---------------------|

PUBLIC RECORD SOURCES: EFX XPN TU

PUBLIC RECORDS HAVE BEEN CHECKED FROM OTHER SOURCES AND/OR THE REPOSITORIES LISTED WITH THE FOLLOWING RESULTS: NO PUBLIC RECORDS FOUND

INQUIRIES WITHIN THE PAST 90 DAYS

| | | | | | | |
|---------------------|------------|---|---------|------------|--|--|
| CSC CREDIT SERVICES | 03/22/2005 | B | XPN-01 | 1973323 | | |
| CSC MTG | 03/22/2005 | B | TU-01 | Z 00001124 | | |
| CSC MTGE | 03/22/2005 | B | ECIS-01 | 544ZB00015 | | |

ECIS-01 B FILE VARIATION: [REDACTED] 53 [REDACTED] DOB: 03/[REDACTED]/19[REDACTED]
 XPN-01 B FILE VARIATION: [REDACTED] 53 [REDACTED]
 TU-01 B FILE VARIATION: [REDACTED] 53 [REDACTED]

---- ADDITIONAL INFORMATION

XPN-01 B XPN: FOUND ADDITIONAL SSN 53 [REDACTED] FOR APPLICANT
 XPN-01 B CKPT: INPUT SSN NOT ISSUED AS OF 12-04 - XPN
 TU-01 B TU_ALERT:SUBJECT - SSN INPUT VALUE DOES NOT MATCH FILE

PAYMENT AMOUNTS MARKED WITH AN ASTERISK (*) HAVE BEEN CALCULATED AT 5% OF THE BALANCE OWING OR \$10.00 WHICHEVER AMOUNT IS GREATER

REPORT PREPARED BY: GATEWAY SYSTEM

| | | |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Equifax Information Svc. LLC P.O. Box 740341 Atlanta, GA 30374 800-685-1111 www.equifax.com | Experian 701 Experian Parkway P.O. Box 2002 Allen, TX 75013 888-397-3742 www.experian.com/reportaccess | TransUnion, LLC P.O. Box 1000 Chester, PA 19022 866-887-2673 www.transunion.com |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|

END OF CREDIT REPORT



Underwriting Guidelines – Credit

Nontraditional Credit Documentation

- Establish 12 months' timely payment history as follows:
 - Nontraditional credit reports in conformance with GSE guidelines accepted
 - Cancelled checks or money orders
 - Copies of bills marked paid
 - Lender-direct written verification (e.g., 12-mo. rental payment history)



Underwriting Guidelines – Credit

Nontraditional – Written Verification

- Lender must request written verification directly from the creditor
- Lender-direct written verification should include:
 - Creditor’s name
 - Date account opened
 - Unpaid balance
 - Payment history
 - Address
 - Current account status
 - Amount of high credit
 - Required payment
- If late payments are indicated, payment history must be stated in the number of past dues format – 30-, 60-, 90-day

| Nontraditional Credit References | |
|-----------------------------------------|----------------------------------|
| Rent | Utilities (gas, electric, water) |
| Services (cell phone, day care) | Auto loan/lease, insurance |
| Rent-to-own contracts | Systematic savings, Remittances |

Underwriting Guidelines – Credit Payment History

| Acceptable Number of Lates | | |
|----------------------------------------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <u>Obligation</u> | <u>Last 12 Mos.</u> | <u>Last 24 Mos.</u> |
| Housing (Rent, Mortgage) | <ul style="list-style-type: none"> 0 x 30 | <ul style="list-style-type: none"> 1 x 30 0 x 60 or beyond |
| Installment, Nontraditional or Revolving | <ul style="list-style-type: none"> 0 x 30 | <ul style="list-style-type: none"> 2 x 30 or 1 x 60 0 x 90 or beyond |
| Judgment, Tax Liens, Collections (non-medical), Charge-offs, Repossessions | <ul style="list-style-type: none"> None | <ul style="list-style-type: none"> Aggregate outstanding balance may not exceed \$1,500 |

Underwriting Guidelines – Credit

Adverse Credit History

| Adverse Credit History | |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Issue</u> | <u>Requirement</u> |
| Judgment, Tax Liens, Collections (nonmedical, Charge-Offs, Repossessions) | All outstanding balances must be paid in full prior to closing |
| Medical Collections | Up to \$1500 may remain open after closing if: <ul style="list-style-type: none"> ▪ Each open medical collection is explained, and ▪ The borrower documents that they are on a repayment plan ▪ The repayment plan must be considered when calculating the debt ratio |
| Bankruptcies | Must be discharged 3 years prior to loan application |
| Foreclosures, Deeds-in-lieu, Short Sales | Ineligible |
| Consumer Credit Counseling/Debt Management Plan | Must be discharged/complete 3 years prior to loan application |



Underwriting Guidelines – Income

Income Documentation

Documented Income

- 30 days worth of pay stubs with YTD earnings
- 2 years' W-2s and 1040s supporting consistent income
- IRS tax transcripts matching 1040s & W-2s

Secondary Cash Income

- Must be included on original loan application
- Boarder and rental income are not acceptable sources of undocumented cash income
- Amount and source must be reasonable and consistent with documented income



Underwriting Guidelines – Income

Qualifying Income Calculation

Documented Income

- Qualifying income will be calculated using a 2-year average of tax returns

Secondary Cash Income

- Amount of undocumented cash income does not exceed the lesser of \$1,200 or 25% of the total documented monthly income

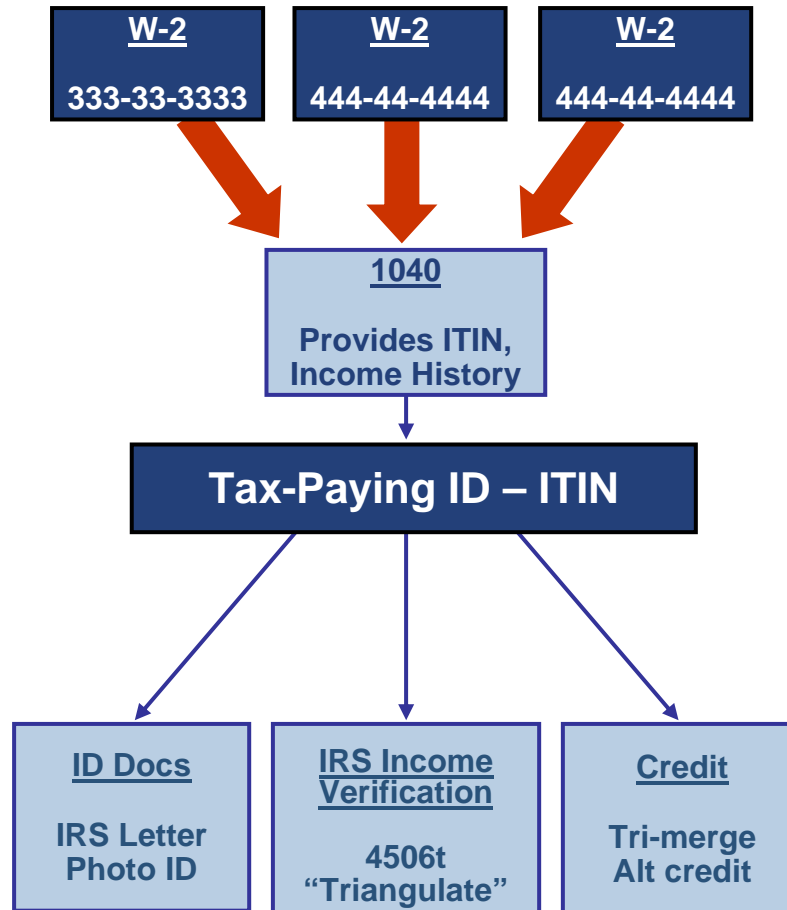


Underwriting Guidelines – Income Qualifying Ratio

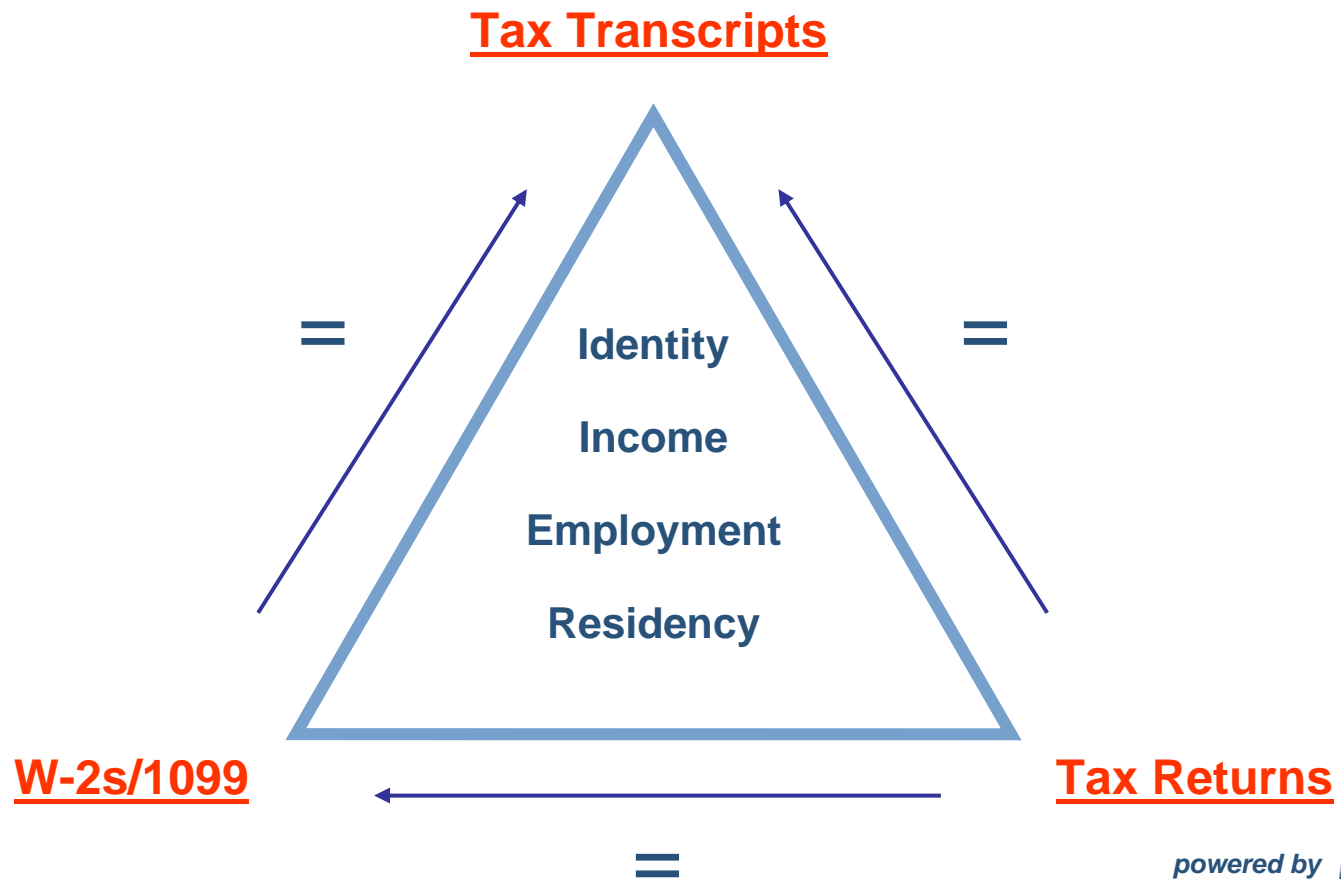
- 41% max.
- 45% if:
 - All income is documented
 - Housing payment documented by 12 months' *cancelled checks* or bills marked paid
 - Minimal payment shock: 25%

Underwriting Guidelines – Income

Typical BALIA Loan Documents



Underwriting Guidelines – Income “Triangulate” the Facts





Underwriting Guidelines – Best Practices

Most Common Underwriting Pitfalls

- Missing tax returns, W-2s or tax transcripts
- Income mismatch
- Tradeline verification not lender-direct
- Tradeline verification not in acceptable format
- Tradeline history is less than the 12-month minimum
- Poor payment history



Underwriting Guidelines – Best Practices

An ITIN Alone is Not Enough

- Obtain directly from the IRS a verification of two years of income and taxes under the ITIN identity
- Scenarios you may encounter:
 - Has W-2 income, but has never filed taxes with the IRS (*may have to pay late-filing penalties*)
 - Has W-2 income and has filed taxes under an SSN that is not their own (*will need to file amended returns*)
 - Is self-employed or earns cash income, but has never filed taxes with the IRS (*may have to pay late-filing penalties*)



Summary

Process Workflow

- **STEP #1** – Loan officer takes application; facts regarding income, identity and employment are “*triangulated*”
- **STEP #2** – Lender obtains IRS-direct verification of income for 2 years (*to corroborate borrower-supplied transcripts*)
- **STEP #3** – The credit underwrite (*requiring lender-direct verification*)

Summary

Process Workflow – Loan Submission

STEP #4 – Complete loan approval underwrite and submit full file package to local MGIC underwriting office for MI underwrite

- Loans submitted to local MGIC underwriting office with “BALIA” sticker affixed to MI application
- Underwriter approval worksheet (or MGIC checklist)
- Copy of complete underwriting file
- Homebuyers Education completion certificate
 - Required on all transactions for all borrowers
 - Must be completed before loan approval
 - Certification must be obtained from a member of MGIC’s HEC Network



Summary

Process Workflow – Loan Submission

STEP #5 – MGIC either suspends, issues pre-qualification approval or a commitment certificate, or denies loan for MI

If suspended by MGIC....

- **STEP #6** – Originator receives suspension letter detailing conditions to be cleared
- **STEP #7** – If all conditions can be cleared, originator aggregates all information required by MGIC and submits it at one time
- **STEP #8** – (a) If conditions cleared and no other conditions arise, MGIC issues cert or (b) If conditions not cleared, MGIC will issue denial letter on 30th day of suspension period



Summary

Information Resources

Visit our website

www.mgic.com/emergingmkts/emergingmkts.html

Emerging Markets Contacts

| | | |
|---------------------|----------------------|----------------|
| Northeast Region | Michael Williams | (617) 818-4602 |
| Southeast Region | Serita Fair | (312) 404-7022 |
| Pacific Region | Rosa Dalia Hernandez | (714) 552-5294 |
| East Central Region | Marian Perozo | (810) 287-0494 |
| Central Region | Rosa (interim) | (714) 552-5294 |



Summary

Questions and Answers

