



Mortgage Services III, LLC

A Subsidiary of First State Bank Member FDIC

Wholesale Partner Announcement

At MSI...Your Interest Is Our Priority!

Issue Date 10/07/09

Effective Date As Noted

WPA 2009-038

Multiple Topics

Purpose

This communication announces:

- ü FHA FICO Increases.
- ü Underwriting Updates:
 - Based on Freddie Mac LP changes.
 - Clarification of Conventional Subordinate Financing Limitations.
 - Requirement for Attached PUDs.
 - Correction and clarification of document aging requirements for all loans.
- ü Mortgage Disclosure Improvement Act (MDIA) clarifications.
- ü Higher Priced Mortgage Loans (HPML) – Clarification.
- ü Quick Underwriting Tips and Reminders.
- ü USDA Loans – Continuation of Funding.

Effective Date

As Noted.

FHA FICO Increases

Effective for loans locked or relocked on/after 10/19/09.

MSI is increasing the minimum FICO requirements for the following FHA loans:

- ü **FHA Streamline Refinance**, with or without an Appraisal – New Minimum FICO is **640**.
- ü **FHA Cash Out Refinance** – New Minimum FICO is **640**
- ü **FHA High Balance Cash Out Refinance** – New Minimum FICO is **660**.

No exceptions, loans with a lock (or relock) date on/after 10/19/09 must meet the new minimum FICO requirements.

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Underwriting Updates

Effective for all LP loans submitted (or resubmitted) to LP on/after 9/27/09 as announced by Freddie Mac; Effective for all DU loans submitted (or resubmitted) to DU on/after 10/08/09 (these guidelines are now MSI overlays).

See the matrix for a **summary** of changes; see the Seller Guide, Underwriting Chapter and the Government and USDA Product Suite for full details.

Chapter	Topic	Summary
Underwriting	Alimony/Child Support/ Separate Maintenance REV	<ul style="list-style-type: none"> ü In order for alimony or child support to be considered as acceptable stable income, the borrower must have received income for at least 6 months; the payor must be obligated for the most recent 12-months and for a minimum of 3-years more. ü If the payor is/was obligated for less than 12 months, but not less than 6-months, the income may be considered for qualifying if the amount of the monthly payment does not exceed 30% of the Borrower's qualifying monthly income. ü However, the income may not be used to qualify the Borrower if <ul style="list-style-type: none"> • The payor is obligated to make payments for less than 6-months OR • If the payments received (regardless of the court documents) are not for the full amount OR are not received on a consistent basis.
	Income Analysis Salaried - REV Self-Employed - CLAR	<ul style="list-style-type: none"> ü Salaried: <ul style="list-style-type: none"> • MSI requires that the underwriter provide an "analysis" of the qualifying income calculation on the 1008. ü Self-Employed: <ul style="list-style-type: none"> • MSI require that the underwriting complete, as applicable, either the Freddie Form 91 or the Fannie Form 1084(or equivalents) to document the qualifying income calculation.
	Self-Employed Borrowers Where the Income is Not Used to Qualify CLAR	If the Borrower(s) is self-employed, but the income is not used to qualify, the underwriter must obtain the Borrower's individual income tax returns to determine if there is a business loss that may have a detrimental impact on the stable monthly income used for qualifying.

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Underwriting Updates, Continued

Chapter	Topic	Summary
Underwriting	Subordinate Financing REV	MSI will not accept the following types of New Subordinate Financing: <ul style="list-style-type: none"> ü Employer seconds. ü Community seconds.
	Documentation CLAR	MSI would like to clarify the following: <ul style="list-style-type: none"> ü For underwriting purposes: <ul style="list-style-type: none"> · If the AUS calls for any type of "reduced" documentation, MSI requires a minimum of 1-year W-2 to be included in the loan file. · If the AUS calls for full/alt documentation, MSI requires 2-years W-2. ü For quality control purposes: <ul style="list-style-type: none"> · MSI requires that the loan file contain 2-years of tax transcripts; and at time of delivery the 4506-T must provide the ability to pull 2-years transcripts.
	Appraisal Requirements CLAR	MSI would like to clarify that for any property that was previously a Deed-In-Lieu or Foreclosure, MSI requires a "full" appraisal (1004 or as required by the property type – no "streamline" appraisal types are acceptable).
	Borrowers that do not tax accountants on a regular basis. CLAR	If the Borrower(s) does not use an accountant to prepare their taxes on a regular basis, they may enlist the services of an accountant on a one-time basis to provide necessary documentation to meet loan underwriting requirements.
	Verbal Verification CLAR	MSI would like to clarify that when completing a Verbal Verification of Employment the underwriter must independently validate the information by using the Yellow Pages, 411.com, local licensing bureaus, or in the case of Self-Employed Borrowers, Web Sites such as the Department of Revenue, Better Business Bureau, etc. The telephone numbers to call should be obtained from a reliable third party source and not from the loan application. See the Seller Guide/Underwriting Chapter or Fannie Mae or Freddie Mac Seller Guide for additional guidance. MSI will accept Freddie Mac Form 90 or any equivalent form.
Government Product Suite	Age of Documents	Corrected/Clarified that at time of delivery, the credit and income documents may not be aged greater than 120 days from the Note Date.
USDA Product Suite	Correction/Clarification	See the Product Suite for additional requirements for age of documents at time of Underwriting and appraisal aging requirements.
Underwriting		Clarified the Guide to be consistent with Fannie Mae for Conventional loans.

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MDIA

Effective Immediately

MSI understands that loan officers provide Borrowers with a preliminary GFE/TIL at the time they meet and then at a later date the processor or loan officer prepares the "application package"; which results in a TIL dated (for example) 7/30 and an application dated 8/14. **This is not acceptable under our interpretation of the Mortgage Disclosure Improvement Act (MDIA).**

- ü MSI requires that the company provide a re-disclosed TIL at the time of application to ensure that the dates of the application and the TIL are in full compliance with MDIA.

HPML Loans

Effective for loans with an application date on/after October 1, 2009.

On July 14, 2008, the Board of Governors of the Federal Reserve System issued amendments to Regulation Z which provided additional consumer protections for mortgages. The new rules cover what are categorized as "Higher Priced Mortgage Loans" (HPMLs), which are separate from and should not be confused with High Cost loans.

MSI tests all owner occupied loans (closed end loan secured by the consumer's principal dwelling) prior to loan funding to ensure that they are not considered a HPML. If the loan, based on the calculation provided at this Web Site, www.ffiec.gov/ratespread/newcalc.aspx, is an HPML loan, MSI will apply the following restrictions:

- ü The loan may not be one of the following. If it is, the loan is not eligible for funding and will be returned to the Seller:
 - FHA Streamline
 - VA IRRRL
 - 3/1 ARM – All loan types.
 - 5/1 ARM – All loan types.
 - Conventional Streamline (DU Refi Plus is considered a "streamline".)
- ü If the loan product is acceptable, the following **additional** requirements must be met for the HPML loan to be eligible for funding:
 - ü Verified income and assets that clearly supports the borrower's ability to repay.
 - No prepayment penalties (MSI does not offer.)
- ü Verification of the rate spread difference as required by Reg Z, HMDA, as well as any other local or state statutes.

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Quick Tips

MSI would like to list a few “down and dirty” tips for underwriting and faster funding ...

ü Remember:

- MSI does require 2-years tax transcripts, even if the AUS has required only 1-year W-2 documentation.
- If an asset is needed for closing, it must be liquidated and the cash documented prior to closing.
- For all condos: MSI requires “walls in” (H-06) insurance coverage; the standard 5% deductible applies. Please see the Underwriting Chapter, Property, General Condo Requirements for full details.
- For Conventional Loans, always check the MSI Underwriting Chapter for additional guidance.
- Be sure that your documents are aged as required for the product type.

ü MSI can underwrite a suspended loan faster if all the conditions are e-mailed back to the appropriate contact person at one time.

USDA Funding

MSI is currently purchasing USDA loans as usual; we will communicate immediately and accordingly on the Rate Sheet if there should be any change in that status.

Seller Guide

As Applicable: The Seller Guide and any Product Quick Reference Sheets will be updated within 2 business days of the effective date of the change.

Questions

If you have questions, contact your Account Executive.

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