



Mortgage Services III, LLC
A Subsidiary of First State Bank Member FDIC

Wholesale Partner Announcement

At MSI...Your Interest Is Our Priority!

Issue Date 10/15/09 Effective Date As Noted WPA 2009-039

LP Relief Refinance; Government Loan Clarifications and other Multiple Topics

Purpose

This communication announces:

- ü **Important Critical Mortgage Disclosure Improvement Act (MDIA) change.**
- ü **For Conforming Loans:**
 - MSI's implementation of the Freddie Mac LP Relief Refinance Mortgage Program (LP RRM).
 - Changes to DU Refi Plus.
 - Clarification for conforming condos – MSI is adding a specific “Condo and Attached PUD” matrix to the Conforming Product Suite to hopefully clarify loan parameters for condos and attached PUDs.
 - Change to appraisal requirements- MSI will accept either a color or a clear black and white appraisal.
- ü **For Government Loans:**
 - Addition of a VA 5/1 ARM product to the Government Product Suite.
 - Clarification/correction of the number of units permitted for an FHA refinance.
 - MSI is providing a “list” of VA closing costs and fees that are acceptable for our funding.
 - Clarification that MSI will not accept an “application fee” as an closing cost for FHA loans.
 - **USDA Loans:** Clarification that USDA loans require a minimum of 2 useable FICO scores for each borrower and clarification that USDA will accept a modular home as long as it meets the characteristics of a “stick built” home.
- ü Change in Tax Payment Rule.
- ü Helpful Tips.

Effective Date

As Noted.

MDIA

Effective for all loans closed on/after 10/16/09:

MSI will audit the TIL's for an APR that has **increased or decreased** by more than 0.125% (1/8 of a percentage for Fixed) or 0.25% (1/4 of a percentage for ARM or IO loans).

- ü MSI will require a corrective TIL disclosure in compliance with MDIA when the APR on the corrective TIL has **increased or decreased** by more than 0.125% (1/8 of a percentage for Fixed) or 0.25% (1/4 of a percentage for ARM or IO loans) when compared to the APR on the most recently disclosed TIL.
- ü All other requirements for MDIA remain in place.

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Freddie Mac Relief Refinance Mortgage

Effective for loans locked on/after 10/19/09:

MSI will accept Freddie Mac's LP Relief Refinance Mortgage Program (LP RRM) loans within the MSI overlays.

- ü MSI has attached to this Announcement the MSI parameters for acceptance of these loans (we will also include this matrix in the updated Conforming Product Suite).
- ü Quick Summary of MSI Restrictions:
 - Maximum LTV/TLTV/HTLTV is 100.00%.
 - MSI will accept only 1-2 unit primary residences.
 - MSI will not accept loans that require mortgage insurance.
 - MSI will accept only standard conforming loan amounts (no high balance or super conforming loan amounts).
- ü **See the attached LP RRM product matrix for full details.**
 - Topics in the attached matrix that are in bold are MSI overlays.

DU Refi Plus

Effective for loan locked/relocked on/after 10/19/09:

For the current MSI DU Refi Plus product:

- ü MSI will accept only 1-2 unit primary residence properties. We will no longer accept 3-4 unit primary residences.
- ü MSI will offer a 15-year term (Product Code 156600)

Condo Matrix

Clarification

MSI is adding a "Condo-Attached PUDs" section that will include a specific condo /attached PUD product matrix for clarity to our Conforming Product Suite.

You will still need to reference the Underwriting Chapter and the Fannie Mae Seller Guide for full details, but we are hopeful that the new matrix will facilitate an easier understanding of our condo restrictions.

See [Attachment to Announcement – Condo and Attached PUD Matrix](#) to review our new Condo/Attached PUD Matrix.

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Appraisal Requirements

Clarification

Effective Immediately, MSI will accept either a color or a black and white appraisal (note that the photos must be sharp and clear regardless whether the appraisal is in color or black & white.)

5/1 VA ARM

Effective Immediately (pricing is available):

MSI is adding the product code for a 5/1 VA ARM to the Government Product Suite.

- ü The loan must meet MSI/VA guidelines.

FHA Cash Out Refinance

Correction/Clarification

MSI will correct our FHA Cash Out Refinance Matrix (in the Government Product Suite) to indicate that we do accept 1-4 unit properties.

- ü For 3-4 unit properties, the loan must meet FHA debt service ratios where the rental income must be able to "carry" ("cover") the mortgage payment.

MSI List-Acceptable VA Closing Costs

Effective Immediately for all VA loans, regardless of lock date:

MSI, as a courtesy, is providing a list of VA Closing Costs that are acceptable to us as an "Audit Point" during our pre-funding review. MSI is not providing legal advice; we are simply providing our interpretation of the VA guidelines.

See Acceptable VA Closing Costs (excerpted from the 10/19/09 version of the Government Product Suite) at [Attachment to Announcement – VA Closing Costs](#).

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Tax Payment Rule

Effective for all loans closed on/after 10/23/09, regardless of lock date.

Due to secondary market issues, MSI must increase our Tax Payment Rule from 45 days to 60 days:

- ü Loans funded by MSI will require that taxes due within 60-days of the Note Date must be paid at closing.
- ü MSI may work individually with specific loans to negotiate a different date; however, any exceptions will not supersede our Tax Payment Rule.

FHA Allowable Closing Costs

Clarification

MSI does **not** accept an "application fee" as an acceptable closing cost when auditing FHA loans for purchase.

USDA Loans

Clarification

- ü MSI will clarify the USDA Product Suite to make it clear that each borrower must have a minimum of 2 useable FICO scores. We will remove any contradictory language.
- ü MSI will accept modular homes that are built like traditional "stick built homes" and are in full compliance with HUD Handbooks 4150.2 and 4905.1.
 - Modular homes will be removed from the "ineligible property" listing.

Helpful Tips and Reminders

This week our Helpful Tips are:

- ü **Important Appraisal Reminders:**
 - MSI requires a second full appraisal (HVCC compliant) for all investment (non-owner occupied) properties with a sales price or appraised value less than \$100,000.
 - MSI does **not** accept the limited appraisal forms noted in the AUS findings report, with the exception of the Fannie Mae 2055 or Freddie Mac equivalent.
- ü **MI Coverage-** Regardless of the AUS, MSI requires "standard" coverage. Please see the Conforming Product Suite/ Mortgage Insurance for required levels.

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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Attachment to Announcement – VA Closing Costs

Excerpted from updated Government Product Suite (10/19/09)

VA Closing Costs

All loans must meet the exact VA guidelines for allowed closing costs to the Veteran.
Please see the VA Web Site for assistance. See [Helpful Web Sites](#) for details.

MSI Audit Point – VA Closing Costs

MSI will accept the following VA Closing Costs for loans that are acceptable for purchase:

Important Note: All allowable costs must be reasonable and customary:

- ü 1% Origination Fee
- ü Reasonable Discount Points (“Discount” can only be paid in connection with actual reductions to the interest rate and must be payable to MSI.)
- ü VA Appraisal Fee
- ü VA Compliance Inspector Fee
- ü Second Appraisal when Veteran is Requesting a Reconsideration of Value (When Lender is requesting a Second Appraisal the Borrower may not pay for the second appraisal. The MSI conventional appraisal for VA IRRRL loans may not be charged to the Veteran.)
- ü Recording Fees
- ü Credit Report Fees
- ü Pre-Paid Items
- ü Hazard and Flood Insurance when required
- ü Flood Zone Determination
- ü Survey
- ü Title Insurance and Title Examination
- ü EPA Endorsement
- ü Mailing Fees for refinances only when the saved per diem interest cost to the veteran will exceed the cost of the special handling
- ü VA Funding Fees
- ü Mortgage Electronic Registration System (MERS) Fee

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Attachment to Announcement – Condo and Attached PUD Matrix Excerpted from updated Conforming Product Suite (10/19/09)

- Condos – Attached PUDs**
- MSI will purchase loans where the subject property is a Condo.
 - ü The condo and/or attached PUD must meet all current MSI/Fannie Mae Guidelines. See the Seller Guide/Underwriting chapter for full details.
 - ü MSI requires that Questionnaires be completed as required.
 - ü Only those Condos and/or attached PUDs that have a DU Approve with a “Limited Review” are acceptable.
 - ü MSI has provided the following matrix to clarify loan parameters for condos and/or attached PUDs.

Loan Parameters – Condos and Attached PUDs - FRM and ARM

Transaction Type	Units	Maximum			Minimum FICO (1)	Maximum DTI (1)
		LTV No Second	LTV with Second	CLTV		
Owner Occupied - Primary						
Purchase and Limited Cash Out Refinance	1	90.00	90.00	90.00	660 (2)	55%
Cash Out Refinance	1	80.00	75.00	80.00	620	55%
Second Home						
Purchase	1	75.00	75.00	75.00	680	55%
Limited Cash Out Refinance	1	75.00	75.00	75.00	680	55%
Cash Out Refinance	1	75.00	70.00	75.00	620	55%
Investment Property						
Investment Properties are not permitted.						
<ul style="list-style-type: none"> ü MSI will accept only condos and attached PUDs that have a Fannie Mae DU Approve with a message indicating “Limited Review”. Freddie Mac LP condos or attached PUDs are not acceptable to MSI. ü MSI requires the completion of the Condo and Attached PUD Questionnaire for each condo and attached PUD. ü If the project is a 2-4 Unit Project, MSI requires the completion of the 2-4 Unit Condo Questionnaire. 						
Notes:						
(1) The more restrictive MI or AUS will supersede this minimum. DTI: DU loans may not exceed 55%; LP loans are acceptable at the DTI approved by LP.						
(2) LTV's ≤ 80.00% are acceptable with a Minimum FICO of 620.						
ü Florida Restrictions: Condo Max LTV = 75.00%; See State Restrictions for details. (2/20/09)						
ü See Underwriting and Fannie Mae for full details regarding condos and attached PUDs.						

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LP Relief Refinance Mortgage SM

REV (10/19/09) – New section added, no highlight used, to facilitate reading.

Summary

LP Relief Refinance Mortgage (LP RRM) is a new refinance option offered by Freddie Mac to achieve the goals set out for the “Making Home Affordable” program announced by the US Department of Treasury on March 4, 2009.

MSI offers this Freddie Mac program with MSI overlays.

- ü MSI will purchase this product only if the loan meets our **additional** risk overlays. These overlays must be applied “manually” to the LP Accept loans.

Maximum Loan Limits

MSI will permit the LP Relief Refinance Mortgages (LP RRM) only to current Freddie Mac “standard” conforming loan limits.

- ü Super Conforming (Conforming High Balance) limits are not acceptable to MSI.

MSI Product Guidelines

The following matrix outlines to key topics for the LP RRM product.

- ü Topics in bold are MSI overlays to the Freddie Mac product.
- ü Topics not addressed in this matrix must meet the more restrictive current MSI/Freddie Mac requirements.
 - If the topic is not addressed in this product sub-set or the MSI Underwriting Chapter, please follow current Freddie Mac guidelines. See Freddie Mac Bulletins 09-020, 09-021 and the Freddie Mac Seller Guide, available from the Freddie Mac Web Site.

Topic	Requirements or Guidelines
LP Findings	<ul style="list-style-type: none"> ü Only LP Accept, no other LP Decision is acceptable. ü The loan must meet Freddie Mac LP requirements unless otherwise restricted by MSI.
LTV/CLTV	<p>MSI will purchase the maximum LTV/CLTV permitted by the LP Findings with the following exceptions:</p> <ul style="list-style-type: none"> ü LTV/CLTV may not exceed 100% regardless of AUS finding. <ul style="list-style-type: none"> • MSI will only purchase loans that exceed 80.00% LTV IF the LP Findings clearly state that MI is not required on this loan.
Loan Types	<ul style="list-style-type: none"> ü The new loan may be a 15 or 30-year Fixed Rate Mortgage. <ul style="list-style-type: none"> • 30-Year Term: MSI Product Code: 306700 • 15-Year Term: MSI Product Code: 156700
Borrower Benefits	<p>The underwriter must document in the file and validate on the 1008 that the following borrower benefits apply:</p> <ul style="list-style-type: none"> ü The refinance reduces the monthly mortgage principal and interest payment OR ü The new mortgage is more stable (movement from an ARM to a FRM; from an Interest Only to a FRM, or from a Balloon Reset to a FRM, etc.) ü The refinance reduces the amortization term of the mortgage. (Note: It is permitted for the new LP RRM to have a term greater than the current mortgage.)
Restrictions	<ul style="list-style-type: none"> ü LP RRM loans are not eligible in the state of Texas. ü LP RRM loans that fail the HPML test are not eligible for purchase by MSI.

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LP Relief Refinance Mortgage SM, Continued

MSI Product Guidelines, Continued

Topic	Requirements or Guidelines
Seasoning	Standard MSI seasoning requirements apply. <ul style="list-style-type: none"> ü See the Underwriting chapter, Refinance Requirements/Seasoning. ü The existing first lien must be seasoned (payments received by the lender) at least 3 months from the Note Date to be eligible for this product. <ul style="list-style-type: none"> • The LP finding must indicate the loan is eligible for a Relief Refinance. ü MSI will not fund/purchase any LP RRM loan where the subject property was listed for sale within the past 6-months. ü If the property was subject to a cash-out refinance within the past 6 months (from Current Note Date to Application Date), the loan is not eligible to MSI as a LP RRM.
Mortgage Insurance	The current loan must not have current/active mortgage insurance. <p>Note: Loans requiring mortgage insurance are not eligible for MSI LP RRM, regardless of the LP Finding.</p>
Appraisal	<ul style="list-style-type: none"> ü MSI requires a full Freddie Mac/Fannie Mae appraisal (URAR). Standard Freddie/MSI appraisal requirements apply. Home Value Explorer or Automated Valuation Models are not permitted. ü In addition to a full URAR, a field review is required if the LTV/CLTV/TLTV/HTLTV is > 75.00% and the home value is > \$1 Million.
Application	The application must provide a minimum 2 year history for residence and employment. <ul style="list-style-type: none"> ü Employer name, address, phone and income must be provided. ü The fully completed application must be signed by each borrower.
Assets	<ul style="list-style-type: none"> ü Bank Statement covering the most recent month's transactions. ü If the borrower must bring funds to closing, MSI requires asset documentation to support the ability to pay the funds from personal assets, regardless of any AUS findings. ü Reserves are not required; however they should be considered in the underwriting review. If reserves are submitted to LP, they must be verified. ü Gift funds are permitted to Freddie Mac LP guidelines.
Mortgage History	The mortgage history must document: <ul style="list-style-type: none"> ü Must be a first lien, conventional mortgage currently owned by Freddie Mac. (LP must identify the loan as eligible for LP RRM; the loan must be seasoned a minimum of 3 months from the Note Date.) ü The existing mortgage must be current. ü 0X30 lates in the past 12 months or for the life of the loan if less than 12 months.
Eligible Borrowers	<ul style="list-style-type: none"> ü The borrowers on the new mortgage must be identical to the borrowers on the existing mortgage. <ul style="list-style-type: none"> • No new borrowers may be added for the purpose of qualification. <p>Note: If an original borrower was removed due to death or divorce, Freddie requires acceptable documentation of the death or divorce of the other borrower(s) plus evidence that the current remaining borrower(s) has been making the current house payment for the most recent 12-months (or less if the mortgage is seasoned less than 12 months –only as permitted by MSI seasoning requirements.)</p>
FICO	<ul style="list-style-type: none"> ü Each borrower must have a FICO score of a minimum 620.
DTI	As permitted by LP.

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LP Relief Refinance Mortgage SM, Continued

MSI Product Guidelines, Continued

Topic	Requirements or Guidelines
Cash Back	<p>The borrower may receive no more than \$250.00 in pocket from the refinance.</p> <ul style="list-style-type: none"> ü A payoff statement is required to accurately calculate the new loan amount based on the unpaid principal balance of the current loan. ü If at closing, (for reasons unknown beyond the control of the Seller at the time of loan submission to lp) the cash back is more than \$250.00, any excess must be applied to principal and the HUD-1 must clearly show that the Borrowers did not receive more than \$250.00 cash back in the transaction. <p>The LP RRM new mortgage amount is limited to the following:</p> <ul style="list-style-type: none"> ü Payoff of the first mortgage lien unpaid principal balance plus accrued interest. ü The lesser of 4% of the unpaid principal balance of the mortgage being refinanced or \$5,000 can be added to the unpaid principal balance of the new first mortgage to pay for Closing Costs, Pre-Paid, Financing Costs and Escrows. ü Proceeds cannot be used to pay off or pay down any subordinate financing.
Income Documentation	<p>MSI requires the following additional income/employment documentation, regardless of AUS Findings:</p> <ul style="list-style-type: none"> ü Salaried Borrowers¹ – AUS requirements plus: <ul style="list-style-type: none"> • One paystub covering a 30-day period and year-to-date income. • The most recent W-2 for the past year. • IRS Transcripts and a signed IRS 4506-T for each applicable borrower. • MSI will perform a Verbal VOE prior to purchase. See Underwriting/Verbal Verification of Employment for details. • Any differences between income documented and income entered into LP must be supported by documentation included in the loan file. ü Self-Employed¹ and Passive Income Sources¹ – AUS Requirements plus: <ul style="list-style-type: none"> • Tax return for most current 1-year. • IRS Transcripts and a signed IRS 4506-T for each applicable borrower. • MSI will perform a Verbal VOE prior to purchase. See Underwriting/Verbal Verification of Employment for details. • Any differences between income documented and income entered into LP must be supported by documentation included in the loan file. <p>(1) As defined by Freddie Mac.</p>
Property Types	<ul style="list-style-type: none"> ü 1-2 Unit Primary Residence Only. MSI does not permit the following: <ul style="list-style-type: none"> • 3-4Units • Second Homes • Investment Properties • Condos for LP loans are not eligible.
Subordinate Financing	<ul style="list-style-type: none"> ü New subordinate financing is not permitted under any circumstances. ü Existing subordinate financing must be subordinated to the new mortgage. <ul style="list-style-type: none"> • Current existing subordinate financing (including purchase money subordinate financing) may not be satisfied by proceeds of the new mortgage. • Maximum LTV/CLTV may not exceed 100.00%. • Subordinate Financing must meet current Freddie Mac guidelines.
Temporary Buydowns	<ul style="list-style-type: none"> ü MSI does not permit Temporary Buydowns for LP RRM loans.
Multiple Mortgages	<p>Maximum 4 properties per borrower regardless of the occupancy of the subject property. (Primary, secondary or investment.)</p>