



Mortgage Services III, LLC

*A Subsidiary of First State Bank Member FDIC*

# Wholesale Partner Announcement

At MSI...Your Interest Is Our Priority!

Issue Date 1/15/10

Effective Date As Noted

WPA 2010-002

## Various Topics; Change in Underwriting Submission

### Purpose

This Announcement:

- ✓ Provides a reminder for Martin Luther King Day.
- ✓ Provides MSI Overlay Policy for FHA use of the Fannie 1004D/Freddie 442 form.
- ✓ Provides the MSI policy regarding purchase transactions with re-negotiated Purchase Agreements.
- ✓ Reminds and clarifies HPML; MDIA and RESPA Reform.
- ✓ Reminds that all for all loans Sellers must use the Revised 1003 (6/09) for loan applications on/after 1/01/10.
- ✓ Announces a change in the Underwriting Submission Process.

### Effective Date

**As Noted.**

### Martin Luther King Day

MSI will be closed to observe Martin Luther King day on Monday, January 18, 2010.

- ✓ MSI does not recognize this Federal Holiday as a rescission day,

### FHA Appraisal Extensions

**Effective for all case number assignments on/after 1/01/10.**

In ML 2009-51 FHA announced their adoption of the Appraisal Update and/or Completion Report (Fannie Mae 1004D/Freddie Mac 442).

MSI would like to provide our overlays to this policy:

- ✓ For **Qualifying Refinance or Purchase transactions** the validity period for FHA appraisals is 120 days from the Note Date.
  - MSI will **not** accept an appraisal update to extend that date.
- ✓ For **Streamline Refinance** loans with an appraisal (only), MSI will accept the 1004D/442 under the following circumstances.
  - The loan must already be underwritten and approved **prior** to the appraisal being 120-days "old" from the original appraisal date.
  - The 1004D/442 may be used to extend the appraisal for a maximum of 180-days from the **original** date of the appraisal to accommodate loan closing.

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#### Purchase Transactions with a Re-negotiated Purchase Agreements

**Effective for all purchase transactions (all product types) locked on/after 1/18/10.**

MSI will not accept re-negotiated purchase agreements (contracts) that increase the sales price **after** the original appraisal is completed if:

- ✓ The appraised value is higher than the contracted sales price provided to the appraiser, and
- ✓ The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received (completed), and
- ✓ The only change to the purchase agreement is the increase in sales price.

If the purchase agreement is re-negotiated subsequent to the completion of the appraisal, the loan-to value will be based on the lower of the original purchase price or the appraised value, unless:

- ✓ A re-negotiation of only seller paid closing costs and/or pre-pays occurs where seller paid closing costs/pre-pays are common and customary for the market and supported by the comparables. Refer to Seller Guide for allowable contributions, **or**
- ✓ An amended purchase agreement for a new construction property is obtained due to improvements that have been made that impact the tangible value of the property.
  - In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

**Notes:**

- ✓ MSI will rely on the appraiser to certify that he/she has seen the purchase agreement.
- ✓ MSI reserves the right to require supporting documentation if any type of real estate scheme is suspected.

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**Reminders - Regulations** MSI would like to provide the following audit point reminders for the newest regulations (HPML; MDIA: RESPA Reform).

Audit Point	MSI Documentation Requirements
<b>Higher Priced Mortgage Loan (HPML)</b>	
MSI must perform a test on all owner-occupied and second home loans to ensure that the loan is not a Higher Priced Mortgage Loan, or validate that the test has been performed.	<b>Documentation Required:</b> <ul style="list-style-type: none"> <li>✓ Copy of the Lock-In Agreement between the Lender/Broker and the Borrower. (Proves the rate and the lock-in date with the Borrower).</li> <li>✓ Copy of the <b>actual</b> calculation made on the "NEW FFIEC Rate Spread Calculator" at the Web Site: (Copy of the print screen from that calculation exercise.) <a href="http://www.ffiec.gov/ratespread/newcalc.aspx">http://www.ffiec.gov/ratespread/newcalc.aspx</a></li> </ul>
MSI must further confirm the following audit points.	<b>Audit Points:</b> <ul style="list-style-type: none"> <li>✓ If the loan is an HPML, the following are <b>not</b> permitted: <ul style="list-style-type: none"> <li>• FHA Streamline</li> <li>• VA IRRRL</li> <li>• 3/1 ARM – All loan types.</li> <li>• 5/1 ARM – All loan types.</li> <li>• Conventional Streamline (DU Refi Plus/LP Refi Relief is considered a "streamline".)</li> </ul> </li> <li>✓ If the loan is an HPML and the loan type is acceptable, the following <b>additional</b> requirements must be met for the loan to be funded: <ul style="list-style-type: none"> <li>• Verified income and assets that clearly supports the borrower's ability to repay.</li> <li>• No prepayment penalties (MSI does not offer.)</li> <li>• Verification of the rate spread difference as required by Reg Z, HMDA, as well as any other local or state statutes.</li> </ul> </li> </ul>

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## Various Topics; Change in Underwriting Submission, Continued

### Reminders-Regulations, Continued

Audit Point	MSI Documentation Requirements
<b>Mortgage Disclosure Improvement Act (MDIA)</b>	
<p>For all owner-occupied and second homes, MSI must validate the Final Truth-in-Lending (TIL) to the Initial and or Corrective TIL Disclosures.</p>	<p><b>Documentation Requirements:</b></p> <ul style="list-style-type: none"> <li>✓ Final <b>signed/dated</b> TIL in full compliance with MDIA.</li> <li>✓ The initial <b>dated</b> TIL and any (all) <b>signed/dated</b> corrective TIL's.</li> <li>✓ Initial 1003               <ul style="list-style-type: none"> <li>• Must be signed and dated by the originator. The date on the 1003 is the "trigger" date used to validate compliance with all applicable regulations.</li> <li>• If face-to-face interview, the 1003 must be signed/dated by both borrowers and originator.</li> </ul> </li> <li>✓ Initial TIL               <ul style="list-style-type: none"> <li>• May be issued to the Borrower at time of application but must be issued no later than 3 business days after the date on the loan application. MSI requires the Initial TIL to be dated in all types of interviews.</li> </ul> </li> <li>✓ GFE-RESPA Reform               <ul style="list-style-type: none"> <li>• Does not have a signature line, but it must be issued (dated) at time of application or within 3 business days. (Signature not required.)</li> </ul> </li> </ul> <p><b>Note:</b> Business days are Monday-Friday, excluding Federal Holidays).</p>
<p>MSI must further confirm the following audit points.</p>	<p><b>Audit Points:</b></p> <ul style="list-style-type: none"> <li>✓ Each TIL must include the following statement: "You are not required to complete this agreement merely because you have received these disclosures or signed a loan application."</li> <li>✓ Timing of Initial, Corrective and Final TIL Disclosures. The TIL disclosures must be in full compliance with MDIA timing (waiting period) requirements.               <ul style="list-style-type: none"> <li>• MSI requires that the Final and Corrective TIL(s) be <b>signed and dated</b> to validate compliance. (Initial TIL to be dated.)</li> </ul> </li> <li>✓ The APR of the Initial (or Corrective) TIL versus the Final TIL.               <ul style="list-style-type: none"> <li>• The APR may not have <b>increased</b> between the Initial (Early) TIL (or the last corrective TIL) greater than 0.125% (1/8 of a percentage for Fixed) or 0.25% (1/4 of a percentage for ARM or IO loans).</li> </ul> </li> <li>✓ <b>No Waiver Permitted.</b> Just like Right of Rescission, MSI will not purchase any loan for which a waiver of any of the timing requirements for the TIL Disclosure has been granted.</li> </ul>

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### Reminders-Regulations, Continued

Audit Point	MSI Documentation Requirements
<b>RESPA Reform</b>	
<p>MSI will confirm that the RESPA Reform documents are in compliance.</p>	<p><b>Documentation Requirements:</b></p> <ul style="list-style-type: none"> <li>✓ Signed and dated initial 1003.               <ul style="list-style-type: none"> <li>• The loan originator must sign and date the initial 1003, that date/signature is the "trigger" for compliance. Face-to-face interviews require borrower and originator signatures.</li> </ul> </li> <li>✓ GFE fully completed.               <ul style="list-style-type: none"> <li>• The issue date must be in compliance when compared to the initial 1003. (There is no signature line-signatures not required)</li> <li>• Changed Circumstances Form (or equivalent), if applicable for each "revised" GFE.</li> </ul> </li> <li>✓ GFE Certification and Applicant's Intent to Proceed.               <ul style="list-style-type: none"> <li>• Fully completed and executed by the originator.</li> </ul> </li> <li>✓ Broker Fee Agreement -fully completed and executed. Required <b>only</b> when MSI funds are used to disburse/close the loan.</li> <li>✓ TIL(s) – in full compliance with MDIA and <b>all</b> other regulations.</li> </ul>

### Reminder – Revised 1003

**Effective for loan applications (all products that use the 1003) on/after 1/01/10.**

MSI will audit for and require the use of the revised 1003 (6/09) for all loans that use the 1003 loan application form.

- ✓ In accordance with Fannie Mae requirements, the 1003 must include the License Number for the Loan Originator **and** Loan Originator Company.
  - **Note:** As applicable to the state in which the subject property is located.
  - MSI will use the following link to identify state compliance: <http://mortgage.nationwidelicensingsystem.org>.
  - MSI will require that seller follows the state requirements if they are "exempt" for licensing requirements (e.g. the state of Indiana requires banks to provide their DFI or FDIC # as an ID).

**Notes:**

- ✓ MSI will delay the full implementation of the "ID Requirement" in keeping with Fannie Mae requirements.
- ✓ Seller warrants to MSI that by sale of the loan to MSI, it is in full compliance with all state licensing requirements. MSI reserves the right to require additional documentation.

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### Various Topics; Change in Underwriting Submission, Continued

#### New Underwriting Submission Process

**Effective for all loans submitted to MSI Underwriting on/after 1/22/10, the following new process applies:**

- ✓ **MSI will no longer accept underwriting files via email.**
  - Documentation to fulfil underwriting stipulations and requests must be emailed or faxed **directly** to the requesting underwriter.
- ✓ MSI will accept submission of underwriting files via facsimile.
  - The **only** fax number that may be used is: **866.726.6324**.
  - Underwriting submissions faxed to any other number will not be considered to be delivered.
- ✓ You may continue to use the electronic (Web Site) underwriting submission process.
- ✓ You may continue to ship "hardcopy" underwriting files to the Bloomington, IL address shown on the current Underwriting Submission Checklists.
- ✓ MSI will re-post to our Web Site all underwriting submission forms with a 1/15/10 date.

**Note:** For your convenience, MSI will send a notice if the incorrect submission process is used.

#### Seller guide

The Seller Guide and any other applicable posted documents will be updated within 2 business days of the effective date of each topic.

#### Questions

If you have questions, contact your Account Executive.

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