



Mortgage Services III, LLC

A Subsidiary of First State Bank Member FDIC

Wholesale Partner Announcement

At MSI...Your Interest Is Our Priority!

Issue Date 3/11/10

Effective Date As Noted

WPA 2010-008

Extended Lock Periods; FHA First Time Homebuyers; Income Guidelines; Government Hazard Deductibles

Purpose

This communication:

- ✓ Announces our Extended Lock Period Policy.
- ✓ Announces MSI maximum DTI for First Time Homebuyers.
- ✓ Clarifies use of 2009 Tax Returns to validate "additional" income.
- ✓ Provides guidelines for use of Corporate Net Profit for self-employed borrowers.
- ✓ Provides correction/clarification for Hazard Insurance Deductibles for Government loans.

Effective Date

As Noted.

Extended Lock Policy

Effective with pricing on/after 3/02/10, MSI offers the following extended locks:

Lock Period	Up-Front Non-Refundable Fee
90 Days	0.500
120 Days	0.875
150 Days	1.250
180 Days	1.500

Notes:

- ✓ The Up-Front Fee is **non-refundable** and is not credited at closing.
- ✓ The payment must be submitted to the MSI Bloomington Office, Attn: Jeff Young, within 3-business days of the lock.
- ✓ If the payment is not received within 3 business days, MSI will issue an invoice; if the invoice is not paid by the due date, MSI will cancel the lock.

FHA Maximum DTI

Effective for all FHA case numbers assigned on/after 4/01/10:

For all FHA loans:

- ✓ MSI requires that all first time homebuyers (homebuyers that have not held ownership interest in a home in the last 3-year period) must have a maximum DTI no greater than 50.00%, regardless of the AUS.
- ✓ The DE underwriter must apply this overlay manually.

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Clarification- 2009 Tax Returns and "Additional Income"

Effective Immediately-A Clarification of Policy:

For 2009 Tax Returns:

- ✓ The income must be validated by tax transcripts.
 - For any **additional** income over and above the W-2 income reflected as wages on Line 7, the tax transcripts must validate said income.
 - Income which is increased by more than 10% over the prior year's income may not be entered into, or used within the AUS without validation/confirmation from tax transcripts.
- ✓ **Additional Anomaly (1-time) Income:**
 - In all prudent underwriting, in order for income to be used for qualification purposes, there must be a history (generally 2-years) of the income and a reasonable expectation that the income will continue for a minimum of 2-years.
 - This requirement precludes the use of anomaly (1-time) type income, such as income from a border where there is no history of border income for the borrower; part-time jobs are generally precluded without a history or some type of expectation of continuance; sale of assets, while OK for down-payment cannot be used as income, etc.

Background: MSI requires underwriter's to be able to validate, confirm and justify (in writing) the use of any income used to qualify a borrower. That income must have a history (generally 2-years, unless you are working with a college student who has recently entered the job market or similar situation) **and** an expectation of continuance (again usually 2-years although some investors are looking for 3-years). It is the duty of the lender (and the mortgage banking industry) to ensure that borrowers are not placed into a home that they cannot afford.

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Use of Corporate Net Profit

Self-Employed Income Sources; Use of Net Profit from a Corporation (1120-type corporate filing):

To use the "net" profit from an "1120"-corporation as income, the borrower must meet the following guidelines/requirements:

- ✓ The borrower(s) must have 100% ownership of the corporation/business.
- ✓ The borrower(s) must have a legal right to any additional income.
 - MSI requires a corporate resolution or other comparable document that establishes that right.
- ✓ The borrower(s) must demonstrate a minimum 2-year history of receiving this income.
- ✓ MSI requires verification from the accountant for the business/company indicating that the business can support the on-going distribution of the corporate profits at the same or an increasing level.
- ✓ The Underwriter's analysis of the business must also support that the business is capable of providing the borrower(s) with the additional income.
 - MSI requires that the Underwriter provide this justification in writing in the loan file.

Important Note: These guidelines refer to 1120 Corporations and not "S" Corporations.

Deductibles – Government Loans

Effective Immediately (as a clarification): MSI would like to add FHA and VA loans to the Deductible Exception in the Seller Guide:

Exception – USDA, FHA and VA Loans:

MSI requires the following Hazard Insurance Deductibles for all USDA, FHA and VA loans:

- ✓ The USDA maximum Hazard Insurance (for all types of Hazard except Flood) deductible is 1% of the face value of the insurance or \$1,000.00, whichever is greater.

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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