



Mortgage Services III, LLC

*A Subsidiary of First State Bank Member FDIC*

## Wholesale Partner Announcement

At MSI...Your Interest Is Our Priority!

Issue Date 3/19/10

Effective Date As Noted

WPA 2010-009

### FHA MIP Increase and Streamline Documentation Requirements; HPML; Non-Occupant DTI; Alimony/Child Support

#### Purpose

This communication:

- ✓ Provides Reminders:
  - Change in FHA Upfront Premiums for FHA loans.
  - Implementation of the Escrow Requirement for Higher Priced Mortgage Loans (HPML).
- ✓ Announces the MSI requirement for documentation supporting income for **all** FHA Streamline loans.
- ✓ Announces MSI requirements for conventional Non-Occupant Co-Borrower ratios.
- ✓ Clarifies requirements for alimony and child support income.

#### Effective Date

**As Noted.**

#### Reminder – FHA UFMIP

**Effective for case numbers assigned on/after 4/05/10:**

- ✓ As announced in ML 2010-02; the Upfront Mortgage Insurance Premium (UFMIP) for all FHA loans which MSI purchases (purchase and refinance transactions) will increase to 2.25%.

See <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-02ml.pdf> for details.

#### Reminder – HPML Escrow Accounts

**Effective for HPML (first mortgage) loans closed on/after 4/01/10:**

- ✓ The escrow requirement, postponed from the HPML requirements of 10/01/09 is effective on/after 4/01/10.
  - Each owner-occupied first mortgage loan identified as an HPML loan that is eligible for purchase by MSI, must have an Escrow (Impound) Account, regardless of the LTV and/or any state laws.
  - The only exception to this rule is condos when the Association maintains a master policy that covers the individual condo units for items such as HOA, and Property Tax.

**Note:** The Seller is responsible to ensure that the escrow (impound) account is in full compliance with all applicable HPML, RESPA and state requirements for escrow accounts.

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## FHA MIP Increase and Streamline Documentation Requirements; HPML; Non-Occupant DTI; Alimony/Child Support, Continued

### FHA Streamlines – Income Documentation

**Background:** As you are aware, FHA continues to tighten closed loan reviews and “sanctions” for loans that default. Despite the government guarantees, the burden for failed loans reverts back to the Direct Endorsement Underwriter. To that end, MSI, in accordance with other investor’s guidelines, is imposing income documentation guidelines for all FHA Streamline Loans.

**Effective with all case numbers assigned on/after March 11, 2009** (these dates are retroactive and are based on investor requirements), MSI will require (source of) income documentation for all FHA Streamline Refinance loans.

See [MSI Overlays](#) for details.

### MSI Overlays

MSI will add the following Income Requirements to the FHA Refinance MSI Overlays Matrix in our Seller Guide.

FHA Refinance MSI Overlays Matrix	
Topic	MSI Overlay
FHA Streamline Refinances – Non-Credit Qualifying and Credit Qualifying	
INCOME All documentation must support the Lender Certification that the DE Underwriter is required to sign and date.	
Income Type	Documentation Requirements
W-2 Wages	Verbal VOE to MSI specifications, completed no later than 3-business days prior to loan closing. See <a href="#">Full/Alt Doc</a> , <a href="#">Government Product Suite</a> for details.
Self-Employed	Verification of borrower’s business documented by one of the following: <ul style="list-style-type: none"> <li>✓ A CPA letter,</li> <li>✓ Evidence of Quarterly Tax Payments or</li> <li>✓ Copy of current unexpired business license.</li> </ul>

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## FHA MIP Increase and Streamline Documentation Requirements; HPML; Non-Occupant DTI; Alimony/Child Support, Continued

### MSI Overlays Matrix, Continued

FHA Refinance MSI Overlays Matrix	
Topic	MSI Overlay
FHA Streamline Refinances – Non-Credit Qualifying and Credit Qualifying	
INCOME	
All documentation must support the Lender Certification that the DE Underwriter is required to sign and date.	
Income Type	Documentation Requirements
<b>Important Notes:</b> <ul style="list-style-type: none"> <li>✓ If the completed loan application indicates income is from an “other income” source, documentation supporting that source of income is required in the loan file.</li> <li>✓ The listing below provides some examples of “other income and acceptable documentation. This list may not be all inclusive.</li> <li>✓ The DE Underwriter may accept documentation not listed herein provided it identifies and supports the “other income”.</li> </ul>	
Alimony/Maintenance Child Support	Copy of the Divorce Decree, a Settlement Agreement or Court payment Record
Annuity	Most current institutional statement.
Interest/Dividends	Document showing ownership of interest bearing account or copy of the current statement showing interest income.
IRA/Keogh	Most current bank statement or letter from administrator.
Note Income	Copy of the Note and/or most current statement showing income.
Pension/Retirement	Most current bank statement or benefit award letter or most current W-2/1099
Rental Income	Copy of current lease. See MSI restrictions, <a href="#">Rental Income</a> and <a href="#">FHA – Conversion of a Principal Residence in the Government Product Suite</a> (Seller Guide).
Social Security Income	Award Letter or most current deposit statement.
Trust Income	Copy of trust agreement or trustee’s statement.
VA Benefits	Award letter or most current deposit statement.

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#### Conventional Non-Occupant Co-Borrower

**Effective for all conventional loans locked (relocked) on/after 3/22/10,**

MSI will require the following ratios:

- ✓ MSI requires the following housing/debt ratios for the occupant borrower in all non-occupant co-borrower transactions:
  - The 35/43% ratio is effective for all loans, regardless of AUS approval.
  - The non-occupant co-borrower details must be entered into the AUS, **and** the underwriter is required to apply the 35/43% ratio manually for AUS-approved loans.

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#### Alimony/ Child Support / Separate Maintenance Income

**Clarification for conventional loans, effective immediately.** MSI is clarifying our guidelines regarding the use of Alimony/Child Support and Separate Maintenance Income to more clearly iterate agency guidelines.

**MSI requires the underwriter to apply this overlay, regardless of the AUS finding message.**

- ✓ **Conventional Loans:** See [Alimony/Child Support/ Separate Maintenance Income Conventional Loan Matrix](#) for revised requirements.
- ✓ **Government Loans:**
  - **Purchase Transactions and "Regular" Refinance Transactions:** (**Clarification, Effective Immediately**) Must follow MSI guidelines, see [Alimony/Child Support/ Separate Maintenance Income Government Loan Matrix](#).
  - **Streamline Refinance Transactions:** (**Effective with all case numbers assigned on/after March 11, 2009**) MSI requires t compliance with MSI Income Guidelines for Streamline Refinance loans (see [MSI Overlays](#).)

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#### Seller guide

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

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#### Questions

If you have questions, contact your Account Executive.

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## Alimony/Child Support/ Separate Maintenance Income Conventional Loan Matrix

MSI guidelines for Alimony/Child Support or Separate Maintenance Income are required, regardless of the AUS condition. The underwriter must manually apply the following guidelines.

If the Alimony/Child Support or Separate Maintenance Income	Then...
Is 30% or less of the total qualifying income	<p>The borrower must have received the <b>full</b> income for a minimum of 6 months <b>prior</b> to application. To consider the income:</p> <ul style="list-style-type: none"> <li>✓ The payer must be obligated in writing to make payments: <ul style="list-style-type: none"> <li>• For a minimum of 6-months <b>prior</b> to loan application, <b>and</b></li> <li>• For a minimum of 3 years <b>after</b> loan closing.</li> </ul> </li> <li>✓ Evidence of the regular and stable <b>receipt</b> of the <b>full</b> amount of the income for most current 6-months is required.</li> </ul>
Is more than 30% of the total qualifying income	<p>The borrower must have received the <b>full</b> income for a minimum of 12 months <b>prior</b> to application. To consider the income:</p> <ul style="list-style-type: none"> <li>✓ The payer must be obligated in writing to make payments: <ul style="list-style-type: none"> <li>• For a minimum of 12-months <b>prior</b> to loan application, <b>and</b></li> <li>• For a minimum of 3-years <b>after</b> loan closing.</li> </ul> </li> <li>✓ Evidence of the regular and stable <b>receipt</b> of the <b>full</b> amount of the income for most current 12-months is required.</li> </ul>

### Required Acceptable Documentation

- ✓ **Verification of the award** ("obligation in writing") of alimony/child support /separate maintenance in one the following documents:
  - Copy of the divorce decree **or**, Formal separation agreement **or** Court records or order.
    - MSI will also accept any other legal agreement or court decree that describes the payment terms, or a copy of any applicable state law that requires alimony, child support or maintenance payments and specifies the conditions under which the payments must be made.
  - The document **must** specify the amount of the award **and** the period of time over which it must be received.
- ✓ **Evidence that the payments have been received** in the full amount and consistently (deposit slips, canceled checks, bank statements or Federal income tax returns, etc..) is required.
- ✓ **Restrictions – Income may not be considered if:**
  - ✓ At any percentage of the total, the payer is obligated less than 6 months **after** loan closing.
  - ✓ The payments received (regardless of the court documents) are not for the **full** amount **OR** are not received on a consistent basis.

### Important Notes:

- ✓ Alimony is taxable therefore do not gross-up; however, child support is not taxable and is eligible to be grossed-up.
- ✓ Documentation for alimony, child support income is not required if the borrower does not use the income to qualify.

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## Alimony/Child Support/ Separate Maintenance Income Government Loan Matrix

For all FHA Purchase and "Regular" Refinance Transactions the AUS findings may be followed within the following guidelines.

See [FHA Streamlines – Income Documentation](#) for Streamline Refinance requirements.

If the Alimony/Child Support or Separate Maintenance Income	Then...
Is required to qualify for a Purchase Transaction or a "regular" Refinance" transaction	<p>The borrower must have received the <b>full</b> income for a minimum of 12 months <b>prior</b> to application. To consider the income:</p> <ul style="list-style-type: none"> <li>✓ The payer must be obligated in writing to make payments: <ul style="list-style-type: none"> <li>• For a minimum of 12-months <b>prior</b> to loan application, <b>and</b></li> <li>• For a minimum of 3-years <b>after</b> loan closing.</li> </ul> </li> <li>✓ Evidence of the regular and stable <b>receipt</b> of the <b>full</b> amount of the income may follow AUS finding requirements (generally 3-months).</li> </ul>
<p><b>Required Acceptable Documentation</b></p> <ul style="list-style-type: none"> <li>✓ <b>Verification of the award</b> ("obligation in writing") of alimony/child support /separate maintenance in one the following documents: <ul style="list-style-type: none"> <li>• Copy of the divorce decree <b>or</b>, Formal separation agreement <b>or</b> Court records or order. <ul style="list-style-type: none"> <li>○ MSI will also accept any other legal agreement or court decree that describes the payment terms, or a copy of any applicable state law that requires alimony, child support or maintenance payments and specifies the conditions under which the payments must be made.</li> </ul> </li> <li>• The document <b>must</b> specify the amount of the award <b>and</b> the period of time over which it must be received.</li> </ul> </li> <li>✓ <b>Evidence that the payments have been received</b> in the full amount and consistently (deposit slips, canceled checks, bank statements or Federal income tax returns.) is required to AUS requirements.</li> <li>✓ <b>Restrictions – Income may not be considered if:</b> <ul style="list-style-type: none"> <li>• The payer is obligated less than 12-months <b>before</b> loan application.</li> <li>• The payer is obligated less than 36 months <b>after</b> loan closing.</li> <li>• The payments received (regardless of the court documents) are not for the <b>full</b> amount <b>OR</b> are not received on a consistent basis.</li> </ul> </li> </ul> <p><b>Important Notes:</b></p> <ul style="list-style-type: none"> <li>✓ Alimony is taxable therefore do not gross-up; however, child support is not taxable and is eligible to be grossed-up.</li> <li>✓ Documentation for alimony, child support income is not required if the borrower does not use the income to qualify.</li> </ul>	

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