



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

Wholesale Partner Announcement

At MSI...Your Interest Is Our Priority!

Issue Date 4/23/10

Effective Date As Noted

WPA 2010-012

Underwriting Clarifications and Revisions; Reminders and Tips

Purpose

This communication:

- ✓ Provides clarifications to MSI underwriting guidelines.
- ✓ Revises/clarifies MSI guidelines for "pre-foreclosure" issues.
- ✓ Clarifies valid AUS requirements for FHA loans.
- ✓ Provides a Reminder for VA Condos and "Walls-In" (H06) Insurance.
- ✓ Provides a Tip to facilitate funding/purchase.

Effective Date

As Noted.

Underwriting

In the matrix below, MSI is providing tips, clarifications and revisions to our conventional Underwriting Chapter.

Note: The matrix is a **brief** summary of the changes. Please see the updated Underwriting Chapter for full details. MSI identifies changes in the Guide with the "Type/ Effective Date" in the margin and yellow highlights of the changed language.

Topic	Type	Details
Non-Arms Length Transactions	CLAR	<p>Background: Based on questions and issues raised over the past couple of weeks, MSI has clarified some additional points as well as provided some additional credit underwriting requirements to facilitate the approval and purchase/funding of loans.</p> <ul style="list-style-type: none"> ✓ Clarified the Definition: MSI has added "Identity of Interest" to the "definition" of Non-Arms Length Transactions to incorporate the difference in semantics in the industry. ✓ Categorized the types of transactions. We have added "Family Sales"; "Employer/Employee Sales" and "Title Changes" to our guidelines. <ul style="list-style-type: none"> • We have added "bailout" to the Family Sales topic to clarify our guidelines. ✓ More clearly stated our "additional" guidelines for transactions that involve non-arms length/identity of interest transactions.
Non-Permanent Resident Aliens	CLAR	MSI has added a note to the Underwriting Requirement section that reminds Sellers that MSI requires 2-years tax transcripts on all loans for each borrower whose income is used to qualify.
Primary Residence/ Owner Occupancy	REV	<p>For all conventional loans submitted/resubmitted to an AUS on/after 4/17/10:</p> <p>In keeping with Fannie Mae's DU verification of owner occupancy messages, MSI will require all conventional loans for primary residences to provide an Occupancy Affidavit/Certification for each occupying borrower. See the Seller Guide/Underwriting for full details, including "fraud report" requirements.</p> <p>Note (TIP): An Occupancy Affidavit/Certification is required for all Government and RD loans also. If MSI does not draw the closing documents:</p> <ul style="list-style-type: none"> ✓ An Acceptable Occupancy Affidavit/Certification must be equivalent to the attached sample. MSI will post this sample form on the Web Site.

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Underwriting, Continued

Topic	Type	Details
Pre-Foreclosure Events	REV	For all conventional loans locked on/after 4/26/10: MSI has adopted Fannie Mae's requirements for Waiting Periods (re-establishment of credit) for "Pre-Foreclosure Events" (defined as, Deed-In-Lieu and Pre-Foreclosure (aka Short) Sales.

Pre-Foreclosure Matrix	
Pre-Foreclosure Event	Waiting (Credit Re-Establishment) Period
	✓ From the date of the completion of the event to the new application date.
Deed in Lieu of Foreclosure	2-Years – Maximum 80.00% LTV/CLTV
Pre-Foreclosure Sale (Also referred to as a Short Sale)	4 Years – Maximum 90.00% LTV/CLTV
	7 Years – LTVs permitted per the applicable product

Notes:

- ✓ MSI follows the Fannie Mae definition that a "short sale" is a pre-foreclosure sale (sale of the property in lieu of foreclosure resulting in the servicer accepting a payoff less than the total amount owed.)
- ✓ All LTV/CLTV maximums are based on the **lesser** of the LTV/CLTV in this matrix or the product maximum LTV/CLTV.
- ✓ Re-established credit must meet the more restrictive of MSI/Agency guidelines.
- ✓ MSI does not permit lesser waiting periods or greater LTV/CLTVs based on extenuating circumstances.
- ✓ See [Short Sale – Additional Guidelines](#) in the [Seller Guide/Underwriting](#) chapter.

**FHA
Acceptable
AUS**

MSI would like to clarify that because we do not permit the manual underwriting of any FHA loan (except streamlines); it not only includes "Refer" loans but also the AUS Accept loans without valid accept decisions ("downgrading" to manual underwriting because the loan does not have a minimum 2 trade lines.)

Important Note:

- ✓ MSI does not permit Sellers to manually underwrite any loan sold to MSI under any circumstances.
 - At MSI's sole discretion, an MSI DE Underwriter may manually underwrite an FHA loan that has received a "Refer" or an invalid AUS "approval".
 - Conventional loans are never permitted to be manually underwritten.

Please see the clarified matrix excerpted from the [Government Product Suite](#) on the next page.

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FHA Acceptable AUS Decisions, Continued

AUS System Credit Recommendation	Comments/Requirements
FHA	
DU/Approve DU/Refer CLAR (4/23/10)	FHA DU loans submitted for purchase must include the findings and AUS credit report in the file. Files must be underwritten, validated and packaged in accordance with: <ul style="list-style-type: none"> ✓ Fannie Mae DU requirements and ✓ The FHA published requirements for TOTAL Mortgage Scorecard ✓ Notes: <ul style="list-style-type: none"> • For the AUS Approval to be valid, the borrower(s) must have 2 currently open reporting trades for a minimum of 12-months. MSI will not purchase loans that do not have a valid AUS approval. • MSI will fund/purchase FHA loans with a refer recommendation. However, the loan must be manually underwritten by MSI in strict accordance with FHA guidelines, and must meet the more restrictive MSI overlays.
LP/Accept LP/Refer	FHA LP loans submitted for purchase must include the findings and AUS credit report in the file. Files must be underwritten, validated and packaged in accordance with: <ul style="list-style-type: none"> ✓ Freddie Mac requirements and ✓ The FHA published requirements including but not limited to, those for TOTAL Mortgage Scorecard ✓ Notes: <ul style="list-style-type: none"> • For the AUS Approval to be valid, the borrower(s) must have 2 currently open reporting trades for a minimum of 12-months. MSI will not purchase loans that do not have a valid AUS approval. • MSI will purchase FHA loans with a Refer recommendation. However, the loan must be manually underwritten by MSI in strict accordance with FHA guidelines, and must meet the more restrictive MSI overlays.
Notes: <ul style="list-style-type: none"> ✓ A copy of the applicable final AUS findings report and applicable loan analysis must be in the loan file at time of delivery for purchase by MSI. ✓ The report/findings must be the most current used to close the loan and may not be older than 90-days from the date of closing. ✓ All loans submitted to an AUS are subject to a 100% validation audit that may occur pre-or post-purchase. Any inconsistencies in the data will require the Seller to have the loan re-underwritten and may result in a non-fund, suspension or re-purchase. ✓ MSI will not purchase/fund any loan for which the Seller has manually underwritten that loan. (Exception-FHA Streamlines) 	

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Important Funding/ Purchase Tip

For all loans:

Changes made to the loan after loan approval that may affect the underwriting decision (i.e. product type, loan term, loan amount, borrowers, property address, etc) **must be re-submitted to underwriting prior to closing** to avoid funding/purchase issues.

- ✓ The loan may require a resubmission to the AUS.
- ✓ The loan may require re-pricing.
- ✓ In some rare cases, the loan may no longer be eligible for purchase by MSI.

Important Note: MSI will validate each loan prior to loan funding/purchase against the original lock **and** in the case of MSI underwriting, the original loan approval.

- ✓ If there are changes to the loan, it will delay funding/purchase while the loan is re-reviewed by underwriting and could result in re-pricing.
- ✓ In some cases, the loan may be ineligible for funding/purchase by MSI.

VA Condo Insurance Reminder

MSI does require an H06 policy for all condos for which the condo master insurance policy does not cover the borrower's unit "walls-in".

- ✓ Remember that the premium for the H06 policy must be included in the escrow (impound) account.

Notes:

- ✓ VA condos must have VA approval to be acceptable – the project must be currently listed on the VA Approved Condo list.
- ✓ VA condos must meet FHA condo insurance requirements.

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.

Questions

If you have questions, contact your Account Executive.

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OCCUPANCY CERTIFICATION

Borrower(s)

Property Address

Loan Number

I/We the undersigned certify that:

_____ Primary Residence – I/we will occupy the Property as my/our principal residence within 60 days after the date of closing as stated in the Mortgage or Deed of Trust I/we executed. I/We will continue to occupy the Property as my/our principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing.

_____ Second Home – I/we will occupy the Property as a second home (vacation, etc) while maintaining a principal residence elsewhere.

_____ Investment Property – I/we will not occupy the Property as a principal residence or second home. The Property is an investment to be held or rented.

REFINANCE ONLY (the following must be completed on a refinance transaction)

_____ I/We the undersigned, certify that the property referenced above is **NOT** currently listed for sale or under contract to be listed for sale.

I/We the undersigned acquired this property on _____, _____.

I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to 30 years in federal prison or a fine of up to \$1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle the Lender to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.

Borrower

Date

Borrower

Date

Borrower

Date

Borrower

Date