



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

Wholesale Partner Announcement

At MSI...Your Interest Is Our Priority!

Issue Date 7/14/10

Effective Date As Noted

WPA 2010-021

Multiple Topics

Purpose

This communication:

- ✓ Announces additions to the entities that must be included in the "Qualified Parties" GSA/DLP validation.
- ✓ Announces multiple additions, revisions and tips for underwriting.
- ✓ Reminds Sellers that the National Flood Insurance Program is again temporarily issuing flood insurance.
- ✓ FHA MIC:
 - Removes the requirement for the providing the MIC on FHA High Balance loans that are purchased within 60-days of loan closing.
- ✓ Announces re-instatement of Lender Paid Mortgage Insurance (LPMI) Product.

Loan Quality – Qualified Parties

Effective Immediately for all loans delivered to MSI, the following **additional** Qualified Parties must also be checked/validated against the GSA and DLP lists:

- ✓ Processor
- ✓ Listing and Selling Agents
- ✓ Settlement Agent

Underwriting

The following matrix outlines the numerous underwriting revisions, updates and tips. The effective date is noted. The summary is a brief explanation of the changes; see the updated Seller Guide for full details.

Chapter	Date/Type	Topic	Summary
Conforming Product Suite	CLAR	ARM Qualifying Rate	MSI has adopted the new Fannie Mae ARM qualifying rates. ✓ The rates must be used to qualify the borrower regardless whether the loan is submitted to DU or LP. (See ARM/Qualifying Rate in the Seller Guide/Conforming Product Suite)
	REV Effective Immediately*	DU Refi Plus – Removing a Borrower	MSI will permit the removal of a borrower to current Fannie Mae guidelines with the following MSI limitations: ✓ Death of a Borrower – Evidence of the death must be provided in the loan file. ✓ Divorce – Evidence of the divorce plus evidence that the remaining borrower has made acceptable payments on the property for a minimum of 12-months prior to the refinance date.
	CLAR	DU Refi Plus	Reminder: Loans eligible for DU Refi Plus must have been delivered to Fannie Mae before March 1, 2009.
	CLAR	LP Relief Refinance	Reminder: Loans eligible for LP Relief Refinance must have been delivered to Freddie Mac before May 31, 2009.

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Multiple Topics, Continued

Underwriting, Continued

Chapter	Date/Type	Topic	Summary
Underwriting	CLAR	Detached Condos	<ul style="list-style-type: none"> ✓ Detached Condos must meet the Fannie Mae insurance requirements. (See the Seller Guide/Underwriting) ✓ If the condo project consists solely of detached dwellings, Appraisal Form 1004 may be used as long as the DU Finding states the 1004 may be used. (Form 1073 may always be used.) <ul style="list-style-type: none"> • The appraiser must include an adequate description of the project and information about the HOA fees and quality of project maintenance.
Underwriting	CLAR	LP Appraisal	<p>If the loan is submitted to LP, MSI requires the following:</p> <ul style="list-style-type: none"> ✓ If the final LP Feedback Certificate includes the Home Value Explorer® (HVE): <ul style="list-style-type: none"> • If the HVE indicates a variance greater than 20%, MSI requires (in addition to the applicable URAR) a Field Review in full compliance with Freddie Mac requirements.
Underwriting Income	REV Effective Immediately*	Future Income	<p>Conventional Loans Only: MSI permits borrowers to be qualified using future income under the following requirements:</p> <ul style="list-style-type: none"> ✓ Future income must be documented in the loan file with a formal offer/contract from the new employer stating all pertinent information (start date/salary, etc.) <ul style="list-style-type: none"> • The offer must be non-contingent (passing the bar exam would not be acceptable.) ✓ Documentation of the formal acceptance by the borrower, without contingencies, must be included. ✓ Borrower must start the new job within 60-days of loan closing. ✓ Borrower must have documented reserves of 6-months PITI for the new loan. ✓ MSI verbal verification of employment guidelines must be met/included. <p>Important Note: New employment may not be with a family member.</p>

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Multiple Topics, Continued

Underwriting, Continued

Chapter	Date/Type	Topic	Summary
Underwriting Qualifying Ratios	REV Effective Immediately*	Student Loans	If no required payment is included for student loans (active or deferred); MSI requires the payment to be calculated at 2% of the current balance for qualifying purposes.
		HELOC	For qualifying purposes: <ul style="list-style-type: none"> ✓ If the HELOC credit line has been reduced, MSI requires evidence (copy of loan modification or lower amount recorded on the title) to validate reduced payments.
Underwriting Property	REV Effective Immediately*	Private Road Maintenance	Regardless of LTV, MSI requires a recorded private road maintenance agreement if the road maintenance terms/agreement is not referenced in the Title.
Underwriting Borrowers	REV Effective for loans locked on/after 7/15/10	Multiple Mortgages to the Same Borrower	Conventional Loans Only: <ul style="list-style-type: none"> ✓ Owner Occupied Primary Residences – MSI is limiting the number of financed properties to 10. ✓ Second and Investment Property guidelines remain unchanged at a maximum of 4 financed properties.
Underwriting Property	REV Effective Immediately*	Redemption	MSI will not fund/purchase any loan with a current/active Right of Redemption listed on the Title. <ul style="list-style-type: none"> ✓ If the Title references that a property is within a Right of Redemption period and the expiration date has not passed <u>prior</u> to the loan closing date, the loan is ineligible for funding/purchase. ✓ MSI will consider funding/purchase if the Right of Redemption on the Title is expired before the date of loan closing.

***Effective Immediately** means for all loans **underwritten** on/after 7/15/10

NFIP

The authorization of the National Flood Insurance Program (NFIP) has once again been extended by Congress and signed by the President.

- ✓ The provision is effective until 9/30/10 and is retroactive from 6/01/10.
- ✓ MSI guidelines remain the unchanged; we must have evidence of flood insurance (if required) in the loan file to fund/purchase a loan.

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Multiple Topics, Continued

MIC

FHA High Balance:

Effective Immediately:

- ✓ MSI will fund an FHA High Balance loan without the MIC.

LPMI

Effective Immediately, for all loans locked on/after 7/15/10. MSI is reinstating the LPMI Product. See [MSI-LPMI – Conforming FRM](#) for a product summary.

Effective Date

As Noted.

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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MSI-LPMI – Conforming FRM

Product	Product Code	Loan Term
<i>MSI Lender Paid Mortgage Insurance Option (LPMI) – FRM</i>		
30-Year FRM – LPMI 90 LTV 80.01 – 90.00%	300100	30-Years
20-Year FRM – LPMI 90	200100	20-Years
15-Year FRM – LPMI 90	150100	15-Years

Summary

Loans with a fixed interest rate and payment for the life of the loan are eligible for the MSI Lender Paid Mortgage Insurance (LPMI). MSI-LPMI provides pricing that enables Lender Paid MI to be added to the loan by MSI.

- ✓ The borrower “pays” for the mortgage insurance in the loan interest rate.
- ✓ The MSI-LPMI loan **must** be submitted to MSI for underwriting.
 - See [Full/Alt Doc](#) or [Underwriting/4506-T](#) for details.
 - MSI will condition that a copy of the tax transcripts and Record of Change (W-2 Borrowers, most recent 1-year; Self-Employed Borrowers, most recent 2-years) be included in each file prior to loan funding/purchase by MSI. If not included in the loan delivery file, MSI will obtain prior to loan funding purchase, a funding delay may occur.
- ✓ The Correspondent **does not order** the Mortgage Insurance.
 - MSI will order the MI.
 - If MI approval is not obtained, the mortgage will be declined.
- ✓ MSI [Loan Limits](#) apply.
- ✓ See the Current Rates on www.msiloans.biz for pricing details.

Documentation Type Full/Alt doc only

Interest Only Not Permitted.

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MSI-LPMI – Conforming FRM, Continued

Mortgage Insurance

MI requirements:

- ✓ Standard coverage applies.
- ✓ The Correspondent does not order MI.
- ✓ The cost of the MI cert is included in the loan pricing.

Restrictions

Appraisal:

A full appraisal (URAR) is required, regardless of AUS findings.

Underwriting:

- ✓ MSI must underwrite all loans, follow standard submission requirements.
- ✓ DU/LP approve or accept are required.
- ✓ Co-signers are not permitted.
- ✓ Non-occupant co-borrowers:
- ✓ Permitted only if the LTV \leq 90.00%.

Subordinate Financing

Not Permitted.

Temporary Buydown

Not permitted.

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MSI-LPMI – Conforming FRM, Continued

Loan Parameters – Conforming FRM MSI-LPMI 10-30 Year

Units	Owner Occupied			Second Home			Investment			Maximum DTI
	Maximum		Minimum	Maximum		Minimum	Maximum		Minimum	
	LTV	CLTV	FICO	LTV	CLTV	FICO	LTV	CLTV	FICO	
Purchase Transactions Only										
1	90.00	N/A	720	Not Permitted						41%
2 – 4	Not Permitted									N/A
Rate/Term and Cash-Out (C/O) Transactions										
Not Permitted										

Notes:

- ✓ Condos are not permitted.
- ✓ Attached PUD's are not permitted.
- ✓ 40-year Amortization Terms are not permitted for LPMI.
- ✓ I/O is not permitted.
- ✓ This MSI product must be underwritten by MSI and the MI Certificate is ordered by MSI.
- ✓ **Please Note:** All loan parameters and requirements are governed by the applicable MI company and are subject to change without notice. If the MI company will not issue a Certificate, the loan is not eligible.

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