



Mortgage Services III, LLC

A Subsidiary of First State Bank Member FDIC

Wholesale Partner Announcement

At MSI...Your Interest Is Our Priority!

Issue Date 7/22/10

Effective Date As Noted

WPA 2010-022

Loan Quality and Other Clarifications

Purpose

This communication:

- ✓ Clarifies MSI policy to ensure compliance with Loan Quality Initiative (LQI) undisclosed liabilities requirements.
- ✓ Revises "Special Purpose Refinance" requirements.
- ✓ Provides specific Reserve Requirements for loans that are not underwritten by MSI.

LQI – Undisclosed Debt

Clarification of MSI Compliance Policy for Conforming Loans– Effective Immediately

MSI underwrites the loan

- ✓ MSI underwriter must condition the loan to "Pull LQI Credit Report prior to issuing a Clear to Close".
 - The underwriter must then review the LQI credit report for any new undisclosed debts, increase in debts, or inquiries for new debt.
 - New or increased debt must be addressed by re-entering new/increased debt amounts into DU or LP and if applicable, the borrowers must provide an explanation for inquiries.
- ✓ Once reviewed and resolved, the Underwriter adds a new condition to the loan: "MSI LQI Credit Report is good through (date 10-business days from date of LQI credit report). If loan does not fund by (date) the loan must be returned to Underwriting for a new LQI Credit Report."

Important Note:

- ✓ In rare cases, review of previously undisclosed debt may result in the borrowers no longer qualifying for the loan.

Seller (or Contract Underwriter) underwrites the loan

At time of loan funding or purchase MSI will confirm that the Seller has:

- ✓ Obtained **and** properly addressed in compliance with the **MSI policy** an LQI Credit Report no earlier than 10 business days prior to the loan closing (funding/settlement date).
 - Place the LQI Credit Report and all resulting/required documentation behind the AUS Findings (included with all other Fraud Check Reports and Documents.)

Note:

- ✓ MSI will not fund/purchase a loan that does not include the LQI required documentation that meets MSI policy.
- ✓ LQI Credit Report must minimally be a "refresh, soft" credit report (without scores) that the underwriter compares against the original report.
- ✓ MSI will accept products from the credit reporting companies that do a "compare" of the original credit report against the refreshed report. (E.g. Credco offers this service). MSI will not accept the current CoreLogic Report.

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Loan Quality and Other Clarifications, Continued

Special Purpose Refinance

Effective for conforming loans, locked on/after 7/23/10:

Due to end investor changes, MSI will impose the following overlay on "special purpose refinances":

- ✓ Refinances for the purpose of "buying out" a co-borrower (in a divorce) or in the case of an inheritance (buying out the other heirs), the refinance must be priced and underwritten as a cash-out refinance.

Reserve Requirements

Effective Immediately:

Reserve Requirements:

MSI Underwrites the Conforming Loan (Prior Approval)

- ✓ Subject Property an Investment or Second Home: Use the reserve requirements outlined in the DU/LP findings.

Seller (or Contract Underwriter) Underwrites the Conforming Loan

- ✓ No change to current Reserve Requirements (regardless of AUS):
 - Second Home transactions require a minimum of 2-months PITI reserves.
 - Investment Property transactions require a minimum of 6-months PITI reserves, for **each** investment property, including the subject property.

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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