

Posted 2/03/12

604 - Table of Contents

604 - RURAL DEVELOPMENT	604-1
PRODUCT DESCRIPTION AND PRODUCT CODES.....	604-1
<i>Product Description</i>	604-1
<i>Product Codes</i>	604-1
<i>Geographic Restrictions</i>	604-1
<i>Price Adjustments</i>	604-1
<i>Mortgage Credit Certificate (MCC)</i>	604-1
RESTRICTIONS	604-2
<i>Introduction</i>	604-2
<i>High Cost and Responsible Lending Restrictions</i>	604-2
<i>State Restrictions</i>	604-2
MSI State-Specific Guidelines	604-2
CLOSING DOCUMENTATION	604-3
<i>Description</i>	604-3
<i>MOM Documents</i>	604-3
<i>State Specific Documents</i>	604-3
<i>Closing Documents</i>	604-3
<i>USDA Hazard Insurance Deductible</i>	604-3
<i>Interest Credit</i>	604-3
<i>Title Requirements</i>	604-4
<i>MSI Title Restrictions</i>	604-4
RURAL DEVELOPMENT LOANS	604-5
<i>Overview</i>	604-5
<i>Benefits</i>	604-5
<i>USDA Eligibility</i>	604-5
<i>Loan Limits</i>	604-6
<i>Loan Parameters – Rural Development 30 Year – FRM</i>	604-7
<i>Assumability</i>	604-8
<i>Borrowers</i>	604-9
<i>Escrow/ Impound Waiver</i>	604-10
<i>Property Types</i>	604-10
RURAL DEVELOPMENT UNDERWRITING GUIDELINES	604-11
<i>Overview</i>	604-11
<i>Special Underwriting Approval</i>	604-11
<i>Underwriting Method</i>	604-12
<i>Contacting USDA Directl</i>	604-12
<i>GUS Credit Reports</i>	604-13
<i>Underwriting Guidelines</i>	604-13
<i>Presentation</i>	604-13

Continued on Next Page

Table of Contents, Continued

<i>4506-T</i>	604-13
<i>Anti-Flipping Rule</i>	604-14
<i>Temporary Waiver – 90-Day Anti-Flipping Rule</i>	604-15
<i>Age of Documents</i>	604-15
<i>Appraisal</i>	604-15
<i>Refinance Appraisal Requirements</i>	604-17
<i>Assets</i>	604-18
<i>Verification of Funds to Close</i>	604-18
<i>Acceptable Documentation</i>	604-18
<i>Acceptable Source of Funds</i>	604-18
<i>Assets Table</i>	604-18
<i>Bankruptcy</i>	604-19
<i>Builder Bailouts</i>	604-19
<i>Credit</i>	604-20
<i>Minimum Trade Line Requirement</i>	604-20
<i>Determining the useable loan score</i>	604-20
<i>Maximum Qualifying Ratios</i>	604-21
<i>Credit Qualifying Considerations</i>	604-22
<i>Direct Verification of Other Debts</i>	604-22
<i>Co-signor on a loan</i>	604-22
<i>Student Loans</i>	604-22
<i>Credit Counseling</i>	604-23
<i>Non-Purchasing Spouse in Community Property States</i>	604-23
<i>Previous Mortgage</i>	604-24
<i>Authorized Users</i>	604-24
<i>Conditions/ Stipulations</i>	604-24
<i>Down Payment Assistance</i>	604-25
<i>FICO Scores</i>	604-25
<i>Foreclosure</i>	604-25
<i>Guarantee Fee</i>	604-26
<i>Homeowner Counseling</i>	604-26
<i>HUD Repo</i>	604-27
<i>Income Documentation</i>	604-27
<i>Salaried</i>	604-27
<i>Self-Employed</i>	604-28
<i>Special Considerations</i>	604-28
<i>Interest Rate - Maximum</i>	604-29
<i>Interested Party Contributions</i>	604-30
<i>Inspection Requirements</i>	604-30
<i>Inspection Requirements Matrix</i>	604-30
<i>Lender Certifications for Repairs</i>	604-31
<i>Loan-to-Value</i>	604-31
<i>Lot Size</i>	604-31

Continued on Next Page



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

Rural Development Product Suite

Table of Contents, Continued

<i>Multiple Properties to One Borrower</i>	604-32
<i>Mortgage History</i>	604-32
<i>Non-Occupant Co-Borrower</i>	604-32
<i>Payment Shock</i>	604-32
<i>Personal Interview</i>	604-33
<i>Purchase Agreement (Contract) – Re-Negotiated</i>	604-33
<i>Qualifying Ratios</i>	604-33
<i>Refinance</i>	604-34
<i>Rural Development Refinance Matrix</i>	604-34
<i>Rental Income</i>	604-36
<i>Repairs</i>	604-37
<i>Rolling Repairs Into the Loan Amount Matrix</i>	604-37
<i>Reserves</i>	604-38
<i>Reservation of Funds</i>	604-39
<i>Secondary Financing</i>	604-39
<i>Security Bars</i>	604-39
<i>Short Sales</i>	604-39
<i>Social Security Number</i>	604-40
<i>Temporary Buydown</i>	604-40
<i>Trailing Co-Borrower Income</i>	604-40
DELIVERY REQUIREMENTS	604-41
<i>Loan Note Guarantee</i>	604-41
<i>Delegated Seller Delivery Requirements</i>	604-41
<i>MSI Underwritten Delivery Requirements</i>	604-41
<i>Fraud Prevention Reports</i>	604-42

NOTES

604 - Rural Development

Product Description and Product Codes

Product Description

This product suite provides details on “special products” offered by MSI. A “special product” is one that doesn’t fit into the conforming conventional, Jumbo or FHA/VA product suite.

Special Products contained in this suite are as follows:

- ✓ Rural Development

Product Codes

The following Product Code Matrix outlines the applicable product codes for our special products.

Product Name	Product Code	Term	Product Feature Options
Rural Development	301700	30-Years	<ul style="list-style-type: none"> ✓ Loans are guaranteed by the U.S. Department of Agriculture (USDA) ✓ Borrowers must meet certain USDA income limits. ✓ The property must be designated “rural” by USDA. ✓ Loans are assumable. ✓ There are no pre-payment penalties.

Geographic Restrictions

- ✓ MSI purchases loans on properties located only in specifically approved states. See [Eligible States](#) for full details.
- ✓ See any additional restrictions in the specific product subset.

Price Adjustments

Loan Level Price Adjustments (LLPA) may be applied against special products. See the [Price Sheets on www.msiloans.biz](#) for details.

Mortgage Credit Certificate (MCC)

(11/10/10)

- ✓ MCCs are eligible to MSI for USDA loans under the following restrictions:
 - The borrowers must be able to qualify with the full tax rate.
 - All applicable paperwork must be completed prior to/ at closing; **there may be no impact to loan servicing.**

Restrictions

Introduction

The following specific restrictions apply for all loans sold to MSI.
By sale of the loan to MSI, the Seller warrants that the loan meets these and all other applicable restrictions in this Seller Guide.

High Cost and Responsible Lending Restrictions

MSI high cost policy will conform to all Federal, State, County, City, and Agency requirements, including consumer laws.

No loan sold may violate high cost regulations as set forth by the above mentioned entities.

By sale of a mortgage loan to MSI, the Seller warrants the following:

No mortgage loan is subject to the provisions of the Home Ownership and Equity Protection Act of 1994 as amended or is considered a "high cost", "covered" or "predatory" loan under any applicable state, federal, or local laws or ordinances.

State Restrictions

MSI purchases loans on properties located only in specifically approved states. See [Eligible States](#) for full details. The matrix below outlines additional geographic restrictions applied by MSI.

State	MSI State-Specific Guidelines
All	<ul style="list-style-type: none"> ✓ MSI product or underwriting guidelines and/or restrictions do not supersede any more-restrictive regulatory, state or local requirements. ✓ Sellers are responsible to ensure that each loan originated, underwritten and closed is in full compliance with all regulatory, state or local guidelines and/or restrictions. ✓ MSI's decision to interpret (for purposes of loan funding/purchase) certain state guidelines does not relieve the Seller of responsibility to be in full compliance with all applicable state regulatory requirements and/or high cost or predatory guidelines. ✓ Additionally, MSI's decision to reference (in our Seller Guide) one state and not another does not relieve the Seller of their sole responsibility to be in full compliance for the states in which they originate loans.
Nevada (11/17/11)	<p>Effective for all loans locked on/after 11/17/11</p> <ul style="list-style-type: none"> ✓ MSI will no longer purchase/fund loans on properties located in Clark County Nevada.
Ohio	The Seller must warrant that each loan secured by property located in Ohio, irrespective of the originating lender's exempt status under the Ohio Consumer Sales Practices Act, relies on full verified documentation of the borrower's financial resources to determine the borrower's probability of repayment. MSI requires that all supporting documentation used by the originating lender to analyze the probability of repayment at time of origination be included in the delivered mortgage loan file.
Texas	Cash Out Refinance loans for primary (homestead) properties are not acceptable for purchase.

Closing Documentation

Description	<p>All loans sold to MSI must use the most current uniform instrument adapted as required by the applicable agency or product for the Note and for the Security Instrument.</p> <p>See Pre-Purchase Delivery and Post-Purchase Requirements for details.</p>
MOM Documents REV (1/01/12)	<p>MSI requires that the loan be closed using MERS as the Original Mortgagee.</p> <p>Note: All Wholesale loans must be closed in the name of MSI.</p>
State Specific Documents	<p>The Seller must use state-specific legal documents as required for the jurisdiction in which the subject property is located.</p>
Closing Documents	<p>Security Instrument</p> <p>Use the appropriate Fannie Mae Security Instrument.</p> <ul style="list-style-type: none"> ✓ State specific documents are required when applicable. <p>Notes/Riders</p> <p>Use the Fannie Mae Multistate Fixed Rate Note.</p> <ul style="list-style-type: none"> ✓ State specific documents are required when applicable.
USDA Hazard Insurance Deductible	<p>MSI requires the following Hazard Insurance Deductibles for all USDA loans:</p> <ul style="list-style-type: none"> ✓ 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.
Interest Credit	<p>MSI does not permit interest credit under any circumstances.</p>

Continued on next page

Closing Documentation, Continued

Title Requirements

All loans funded by MSI must be covered by an acceptable form of Title Insurance issued by a company that meets the current applicable agency guidelines; unless otherwise specifically restricted by MSI.

(5/15/09)

MSI Title Restrictions

- ✓ TICOR Title
 - Effective with loans locked on/after 5/18/09, MSI will accept TICOR titles **only** if TICOR is the actual title underwriter **and** settlement agent.
 - TICOR titles issued by settlement agents or underwriters other than TICOR are not acceptable.
 - **Exception:** MSI will accept TICOR title insurance from TICOR affiliates if the affiliate has a valid, active E&O policy.
 - Documentation of the valid/active E&O policy must be included in each loan file delivered to MSI (A copy of the current declarations page showing that the policy is current and active will be accepted.)

Rural Development Loans

Overview

MSI's Rural Development product is a U.S. Department of Agriculture (USDA) Guaranteed Rural Housing (GRH) fixed rate mortgage. The loans are directly insured/guaranteed by the government.

It is offered to low to moderate income borrowers (as defined by USDA) with property located in a USDA-designated rural area and is guaranteed by the USDA.

Benefits

10/20/11)

Benefits to qualified borrower include, but are not limited to the following:

- ✓ Provides 100% LTV financing for existing homes and new construction based on appraised value.
 - ✓ Available to low and moderate-income rural borrowers who are unable to meet the "upfront" cash-to-close requirements for conventional loans.
 - ✓ No "first-time-homebuyer" requirements.
-

USDA Eligibility

The eligibility of the property and the borrower's adjusted income for this product may be confirmed by using the USDA web site:

<http://eligibility.sc.egov.usda.gov>.

Note: If the link does not work, key in the address.

Continued on next page

Rural Development Loans, Continued

Loan Limits

- ✓ **MSI Minimum**
 - \$20,000
- ✓ **MSI Maximum**
 - MSI limits the maximum loan amount to the lesser of current Fannie Mae/Freddie Mac Single Family loan limits or
 - **For Purchase Transactions:**
 - The maximum guaranteed loan cannot exceed the appraised value, plus the Guarantee Fee if financed, or the amount the applicant can repay based on their ratios, whichever is less.
 - **For Refinance Transactions:**
 - The maximum loan cannot exceed the balance of the loan being refinanced, plus the Guarantee fee, and reasonable and customary closing costs, including funds necessary to establish the new escrow for taxes and insurance.

Notes:

- ✓ USDA requires a minimum LTV, based on **purchase price** of 81.00%; there is no minimum for refinance transactions.
- ✓ All loan amounts are subject to current USDA income eligibility guidelines.
 - Discount points may never be included in the final loan amount.

Continued on next page



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

Rural Development Product Suite

Rural Development Loans, Continued

Loan Parameters – Rural Development 30 Year – FRM (12/07/11)

Units	Owner Occupied			Second Home			Investment			Maximum DTI
	Maximum		Minimum FICO	Maximum		Minimum FICO	Maximum		Minimum FICO	
	LTV	CLTV		LTV	CLTV		LTV	CLTV		
Purchase										
1	102.00	102.00	640	Not Permitted			Not Permitted			48
Rate/Term Refinance – Permitted only if original (current) loans is Rural Development										
1	101.50	101.50	640	Not Permitted			Not Permitted			48
Cash-Out (C/O) Transactions										
Not Permitted										
Notes:										
<ul style="list-style-type: none"> ✓ Loan Limit: Current Fannie Mae/Freddie Mac subject to current USDA income eligibility guidelines. See Loan Limits for details. ✓ USDA Guarantee Fee required: Purchase Transaction = 2.00% of loan amount; Refinance Transaction = 1.50% of the loan amount. Subject to USDA change at any time. Maximum LTV/CLTV is based on 100% of the appraised value plus Guarantee Fee) ✓ See Loan to Value for additional details. ✓ Loans must be submitted to GUS. <ul style="list-style-type: none"> • All loans must meet the more restrictive of MSI and U.S. Department of Agriculture Rural Development (USDA-RD) guidelines. • Approval by the Delegated Seller Underwriter or MSI and USDA is required. Delegated Sellers may not manually underwrite a USDA loan, it must be submitted to MSI. • Full documentation is required. • Contract Underwriting is not permitted. ✓ Buydowns not permitted. 										

Continued on next page

Rural Development Loans, Continued

Assumability

Important:

MSI does not “underwrite” or purchase loans subject to exercising the assumable feature of the loan. Borrowers must work with the current servicer of the loan to activate the assumability aspect of their current loans.

Rural Development (GRH) loans are assumable subject to the following conditions:

- ✓ Subject property and new applicants must meet all criteria for Rural Development loans.
- ✓ New borrower must be credit-approved by the current servicer.
- ✓ In accordance with USDA-guidelines (in RD Instruction 1980-D) there is no release of liability for the current (original)
- ✓ A new title is required.
- ✓ Please contact the current servicer for current requirements.

Continued on next page

Rural Development Loans, Continued

Borrowers (5/06/11) The following matrix outlines the applicable borrower types. All borrowers must meet current FHA guidelines:

Eligible Borrowers	Ineligible Borrowers
<ul style="list-style-type: none"> ✓ Loans are granted only to natural persons ✓ Title must be held in individual names only ✓ Each borrower must have a valid social security number ✓ The following are permitted to the applicable MSI/agency underwriting guidelines: <ul style="list-style-type: none"> • U.S. Citizens • Permanent Resident Aliens 	<ul style="list-style-type: none"> ✓ Borrowers that exceed the USDA moderate-income limits ✓ Borrowers without a clear credit alert number (CAIVRS) ✓ Possession by corporations or partnerships is not acceptable, including, but not limited to, the following: <ul style="list-style-type: none"> • S Corporations • Real Estate Syndication • General Partnerships • LLC ✓ Inter Vivos Revocable Trust ✓ Illinois Land Trust ✓ Non-Occupant Co-borrowers ✓ Non-Permanent Resident Aliens ✓ Borrowers without a social security number ✓ Borrowers with diplomatic immunity ✓ Co-signors ✓ Life Estates ✓ Foreign Nationals ✓ Non-profit organizations ✓ Borrowers specifically prohibited by current FHA/USDA guidelines

Notes:

- ✓ Each borrower must have a valid U.S. Social Security Card.
 - Each borrower must be identified by one of the following tools: Driver's License, State ID Card, Passport or Government-Issued ID with photo. Must match all credit source documents. No multiple social security numbers.
 - For Permanent Resident Aliens, in addition to one of the "tools" noted above, the borrower must provide current valid "Green Card". A copy must be included in the loan file at time of submission for underwriting. The documentation must be approved by USDA.
- ✓ Borrowers may not exceed the current USDA-designated moderate income limits.
 - You may use the following direct link to the current GRH Income Limits:
<http://www.rurdev.usda.gov/rhs/sfh/sfh%20guaranteed%20loan%20income%20limits.htm>
 - Once you select the State and the income limits display, use the moderate income limits that are shown as "RHS MOD.INC-GUAR.LOAN" See [Underwriting/Borrowers](#) for any additional details.
- ✓ **Adding borrowers to Title:** If a spouse is not on the Note, they may added on the Title.

Continued on next page

Rural Development Loans, Continued

Escrow/ Impound Waiver

Waiver of escrow/impounds is **not** permitted under any circumstances.

Property Types

(8/04/11)

The following matrix outlines the applicable property types:

Eligible Property Types	
<p>Unless otherwise specifically restricted or not permitted by the applicable loan parameters, the following property types are acceptable to MSI/agency Guidelines:</p> <ul style="list-style-type: none"> ✓ 1 Unit Properties, attached & detached (1) ✓ Condominiums – Eligible -FHA/VA approved only- FHA/VA approval must be documented. ✓ PUDs – to FHA guidelines- 	
Ineligible Property Types	
<ul style="list-style-type: none"> ✓ Auction – Properties purchased at Auction. ✓ 2-4 Unit Properties ✓ Commercial operations ✓ Condotels ✓ Cooperative Projects ✓ Geodesic Domes ✓ Earth Homes ✓ Houseboats ✓ Income producing properties of any kind ✓ Mobile (Manufactured) Homes, single- or double-wide ✓ Model Home Leaseback properties ✓ Modular Homes (See Notes for exceptions) ✓ Multi-dwelling or Multi-Unit condominiums ✓ Non-Warrantable Condos ✓ Non-conforming zoning projects ✓ Own-your-Own", Timeshare/segmented ownership 	<ul style="list-style-type: none"> ✓ Leasehold Estate Properties ✓ Properties currently listed for sale or listed for sale within the past 6-months ✓ Projects with pending litigation ✓ Properties with deed restrictions that limit transferability of title, or contain a "first right of refusal" provision ✓ Properties located outside the United States or District of Columbia ✓ Properties that can be legally subdivided, regardless of site or site value restrictions ✓ Unimproved (Raw) Land ✓ Working farms, ranches or orchards ✓ Properties located on Indian Reservations ✓ Properties with a swimming pool ✓ Properties with assignments of purchase (assigning the purchase contract to another party) ✓ Properties specifically prohibited by current USDA/FHA guidelines
<p>Notes:</p> <ul style="list-style-type: none"> (1) Property must be a nonfarm, non-income-providing tract. <ul style="list-style-type: none"> • The value of the site must not exceed 30% of the total value of the property. MSI does not permit exceptions to this limitation. ✓ Properties are eligible only in strict accordance with current USDA/FHA guidelines ✓ Condos and PUDs must be served by a Homeowner's Association (HOA); See Government Product Suite for insurance requirements for Condos and Attached PUD. ✓ Access this site for FHA-approved Condos, https://entp.hud.gov/idapp/html/condlook.cfm ✓ MSI will accept modular homes that are built like traditional "stick built homes" and are in full compliance with HUD Handbooks 4150.2 and 4905.1. ✓ Outbuildings are subject to review by USDA; subject to 1980.311 (a) (4) 	

Rural Development Underwriting Guidelines

Overview

All Rural Development loans sold to MSI must:

- ✓ Meet all applicable guidelines of USDA/FHA/MSI
- ✓ Be guaranteed by USDA Guaranteed Rural Housing (GRH)
- ✓ Be prudently underwritten and be of sound investment quality.

Note: MSI reserves the right to refuse purchase of any loan that does not meet our guidelines.

Special Underwriting Approval

Rural Development loans must be approved by:

- ✓ The USDA-Delegated Underwriter **and**
- ✓ The USDA.
 - A USDA Conditional Commitment of Loan Approval (Form 1980-18) must be included in the loan file submitted to the USDA-Delegated USDA underwriter.
 - **Both** approvals (and any "prior to doc/prior to close" conditions are required to be satisfied/cleared **prior to close/disbursement** of the loan.

USDA-Delegated Underwriters:

- ✓ If the Seller is not specifically approved **by MSI** with USDA Delegated Underwriting Authority, all loans must be submitted to MSI for underwriting and insuring/guarantee.
- ✓ If the Seller is a USDA-approved delegated underwriter, the Seller company [and underwriter(s)] must be **specifically** approved by MSI for MSI-USDA-Delegated Underwriting Authority before we will accept loans for purchase.
 - MSI-Approved USDA Delegated Underwriting companies are responsible for the proper origination, closing and insuring of all USDA-RD loans.

Note: In this Product Suite, MSI refers to the USDA Delegated Underwriter to designate the underwriting with the proper authority to review and approve underwriting for USDA.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Underwriting Method

(9/29/11)

AUS

- ✓ DU/LP not permitted.
- ✓ The USDA Guaranteed Underwriting System (GUS) will be used to underwrite USDA loans.
 - MSI requires a GUS Accept, no other “decision” is acceptable.
 - Access to the USDA Lender Inactive Network Connection (LINC) is at this address, (<https://usdalinc.sc.egov.usda.gov/>)
 - Underwriters must have an authorized ID and Password to use the GUS system.
 - If the Seller is not delegated by MSI to underwrite Rural Development loans, they must be submitted to MSI for underwriting.
 - **Additionally**, all Delegated Sellers must submit the loan to GUS; a GUS Accept is **required** for the loan to be eligible to MSI.

(9/29/11)

Manual Underwriting Required

- ✓ If access to GUS is not authorized, the loan must be manually underwritten **by MSI** to MSI/USDA/FHA requirements. MSI will not accept loans manually underwritten by Delegated Sellers.
- ✓ Loans that require a manual down-grade per USDA guidelines **must be submitted to MSI for that manual underwrite**.
 - MSI will not accept any USDA loan that is manually underwritten by a Delegated Seller.

USDA Underwriting Required

- ✓ After the loan has been initially approved by the delegated underwriter (GUS or manually), it must be submitted to USDA for conditional approval.
- ✓ Once the loan has been conditionally approved by the USDA, loan terms, documentation, etc. may not be changed.
 - The loan must be closed and delivered for purchase using the exact terms conditionally approved by the USDA.

Contacting USDA Directly

- ✓ Sellers that are not MSI-approved delegated underwriters for USDA-GRH **may not contact USDA directly** regarding loan submissions or the status of the conditional commitment.
 - This is a serious breach of MSI’s responsibility to USDA and will not be tolerated.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Underwriting Method, Continued

GUS Credit Reports

- ✓ When a loan is submitted to GUS, a new, GUS-credit report is pulled as part of the submission process; this may result in a change to the borrower's FICO or other credit issues.
- ✓ The information from the GUS-credit report is used to underwrite the loan.

Contract Underwriting

- ✓ Not permitted under any circumstances.

Underwriting Guidelines

Rural Development loans must be originated, processed, underwritten and closed in strict compliance with current USDA/FHA guidelines unless MSI guidelines are more restrictive.

Presentation

The guidelines in this section are presented in alphabetical order.

4506-T

(6/1/09)

MSI requires that a 4506-T is signed/dated by each qualifying borrower at closing for each loan sold, regardless whether tax transcripts are included in the loan file or not.

- ✓ For credit-qualifying loans, MSI requires the tax transcripts/Record of Account as follows:
 - Salaried borrowers require the most recent 2-years tax transcripts/Record of Account.
 - Self-employed (passive income) borrowers require the most recent 2-years tax transcripts/Record of Account.
- ✓ For credit-qualifying loans submitted to MSI for underwriting, MSI requires the Correspondent order the tax transcripts/Record of Account and include in the underwriting submission package.
- ✓ For closed loans that are delivered for purchase, which MSI did not underwrite, MSI will order tax transcripts/Record of Account. This will delay purchase/funding by no less than 3-business days.
 - If tax transcripts are included in the loan file (first documents in the credit portion of the loan file), MSI will review and if acceptable to MSI will not obtain "new" tax transcripts. (MSI strongly encourages Correspondents to include the tax transcripts/Record of Account in the loan delivery file.)

Continued on next page

Rural Development Underwriting Guidelines, Continued

4506-T, Continued

Important Note: Amended Tax Returns

The IRS permits tax returns to be amended up to 3-years after the initial tax-filing year. If tax returns have been amended, the underwriter (and MSI) must be able to document the following, via the tax transcripts obtained using the 4506-T:

- ✓ The IRS has processed **and** accepted the amended tax returns; that information is contained in the transcripts.
- ✓ All outstanding liabilities and/or tax penalties have been paid; the transcripts show no outstanding money owed to the IRS.

Additionally, the underwriter must carefully review any increased income to insure its validity, and the loan file should contain:

- ✓ Documentation to support receipt of the income as well continuation of the income (reasonably for at least 2-years in the future).
- ✓ The underwriter in these cases must make every effort to prudently document the added income and the reasonable expectation of continuation.

Anti-Flipping Rule

Rural Development loans purchased by MSI must be in full compliance with the FHA anti-flipping rule **and** the additional guidelines below.

If the property was sold ...	Then ...
0 – 90 days of the Seller's acquisition.	The loan is not eligible for sale to MSI. See Temporary Waiver . See Temporary Waiver – 90-Day Anti-Flipping Rule .
Between 91 and 180 days of the seller's acquisition and the current sales price is increased by 100% or more	<ul style="list-style-type: none"> ✓ Acceptable documentation to support the increased value including any rehabilitation or remodeling. ✓ A second FHA appraisal is required. <ul style="list-style-type: none"> • The borrower may not be charged for the appraisal. • The LTV must be based on the lower value of the 2 appraisals.
Between 181 and 365 days and the current sales price is increased \geq 20.00%	<p>MSI requires documentation to support the increased value including any rehabilitation or remodeling.</p> <ul style="list-style-type: none"> ✓ MSI reserves the right to request a second FHA appraisal which may not be charged to the borrower.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Temporary Waiver – 90-Day Anti-Flipping Rule (11/19/10)

- ✓ MSI does not accept or permit the Temporary Waiver of the 90-Day Anti-Flipping Rule.

Age of Documents (11/10/10)

- ✓ Credit Documents
 - The credit report must be dated no earlier than 90-days from the Note Date.
- ✓ Paystubs and Bank Statements must be within 30-days of underwriting.
 - Documents may be no older than 120-day from the Note Date at time of closed loan delivery.
- ✓ **Appraisal** – Effective for loan applications on/after 01/01/10; appraisals must be dated no earlier than 120-days from the Note Date (following FHA guidelines.) Recertification (1004D/442) is not permitted.

Appraisal (4/01/11) (1/01/12)

- ✓ Appraisal requirements must meet current FHA/USDA/MSI guidelines. The appraisals must be completed by an appraiser that meets FHA requirements.
- ✓ **Effective for appraisals dated on/after 12/01/11:** USDA appraisals must meet UAD requirements including MSI Quality (Q1 – Q5 are acceptable, Q6 is not) **and** Condition (C1-C4 are acceptable, C5 & C6 are not) requirements.
- ✓ The Appraisal must be ordered in full compliance with current Appraiser Independence guidelines:
 - For loans using MSI funds to close (Wholesale Loans): The appraisal must be ordered using an AMC from the MSI Web Site. The appraisal must include the AMC Certification of compliance and the *Borrower's Acknowledgement* form.
- ✓ A complete Uniform Residential Appraisal Report (URAR) is required
 - 1-Unit – Form 1004
 - Condos – Form 1073
- ✓ The appraisals are valid for 120-days from the Note Date.
 - Recertification of value (or updating the appraisal) is not permitted.
- ✓ The information must be accurate, internally consistent, written in clearly understandable language, fully supported and sufficiently documented.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Appraisal, Continued

- (11/21/08) ✓ Color pictures of the subject and comps are required.
- (7/01/09) ✓ A fully completed Market Conditions Addendum (1004MC) is required for each appraisal in accordance with USDA requirements.

Notes:

- ✓ Properties must be in a USDA-designated rural area.
- ✓ Properties with in-ground swimming pools are not acceptable (unless a waiver from the applicable USDA State Director is included in the loan file).
- ✓ Dwellings must comply with USDA thermal standards for new construction; there are no thermal requirements for refinance loans.
- ✓ **Private Septic:** The system must be free of observable evidence of failure. An FHA roster appraiser, government health authority, licensed septic professional, or qualified home inspector may perform the system evaluation (documentation of their evaluation must be included in the loan file). An FHA roster appraiser or qualified home inspector may require an additional inspection due to their observations.
- ✓ **Private Well/Water Supply:** The local health authority or state certified laboratory must perform a water quality analysis (documentation in the loan file). The water quality must meet state and local standards. The Safe Water Drinking Act does not apply to private wells. Contact the EPA at (800) 426-4791 for referrals to certified labs and other inquiries.
 - Iowa Time Of Transfer Law requires a septic inspection be performed by an approved inspector from Iowa DNR.
 - A list of approved inspectors can be located at http://www.iowadnr.gov/files/tot_list.pdf full information on the legislation can be located at <http://www.iowadnr.gov/tot.html>.
- ✓ **Termite:** If required by the appraiser, inspector, or State law, a pest inspection must be obtained to confirm the property is free of active termite infestation.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Appraisal, Continued

- (3/10/11) **Refinance Appraisal Requirements**
- ✓ **Non-Streamline: This refinance option requires a current appraisal.**
 - The property must be certified to meet HUD Handbooks 4150.2 and 4905.1.
 - Properties not meeting the handbooks will not be eligible for refinance with the USDA program until the repairs are made or escrowed.
 - **Repairs cannot be included in the amount financed.**
 - Weather related repairs must be escrowed at 1.5 X the bid amount from a licensed contractor from the borrower's own funds.
 - See [Repairs](#) for requirements on Escrow Holdbacks, ignore all references to "rolling the cost of the repairs into the loan amount".

 - (5/06/11) ✓ **Streamline Permitted ONLY if underwritten/Committed by MSI – Delegated not permitted.**
 - ✓ **Streamline: This refinance option does not require an appraisal.**
 - USDA will accept an *Existing Dwelling Certification* (See the MSI Web Site) to be completed by an appraiser on the HUD roster.
 - The property must be certified to meet HUD Handbooks 4150.2 and 4905.1.
 - Properties not meeting the handbooks will not be eligible for refinance with the USDA program until the repairs are made or escrowed.
 - **Repairs cannot be included in the amount financed.**
 - Weather related repairs must be escrowed at 1.5 X the bid amount from a licensed contractor from the borrower's own funds.
 - See [Repairs](#) for requirements on Escrow Holdbacks, ignore all references to "rolling the cost of the repairs into the loan amount".

Notes:

- ✓ GRH permits Rural Development refinance loans for properties in areas that have been determined to be non-rural since the original loan was made. (change in status of the area from rural to non-rural)
- ✓ Please be aware that currently water and septic test are not required on refinances. This could be subject to change without prior notice.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Assets

Verification of Funds to Close

- ✓ Verification of assets is required regardless of required funds to close.
 - Assets can be documented through 2 most recent concurrent bank statements or a VOD with a bank statement dated within 30 days of the VOD.

Acceptable Documentation

- ✓ Copies of the original bank statements for the past 2-months are required to validate adequate funds to close.

Acceptable Source of Funds

- ✓ In general, sources of funds that are acceptable to FHA are acceptable to USDA, with the exception of exclusions or specific requirements noted in the Assets Table.

Assets Table	
Gifts (or grants)	<ul style="list-style-type: none"> ✓ A borrower can use funds obtained as a gift (or grant) to satisfy part of the cash requirement for closing only if the donor is a relative or friend, or charitable organization, municipality, or nonprofit organization. ✓ A "personal" gift must be evidenced by a letter that is signed by the donor, the letter must: <ul style="list-style-type: none"> • Specify the dollar amount of the gift and the date the funds were transferred into the borrower's account and make the statement that the donor does not expect or require repayment of the gift. • Indicate the donor's name, address, telephone number and relationship to the borrower. • The lender must verify that the funds have been transferred to the borrower's account and document the actual transfer from the donor's account. (Showing a copy of the withdrawal slip or the cancelled check.) <ul style="list-style-type: none"> ○ If the funds are being transferred at closing, the donor must provide good funds (certified check or wire transfer) for the gift amount. A copy of the check or the settlement statement clearly showing receipt of the gift funds will be sufficient documentation that the funds have been received. ✓ A gift or grant from a charitable organization, municipality, or nonprofit organization must be evidenced by either a copy of the award letter or a copy of the legal agreement that specifies the terms and conditions of the gift/grant. <ul style="list-style-type: none"> • Grant documentation must be submitted to the underwriter for full review of terms. The underwriter reserves the right to refuse to accept the grant if requirements are not met. • The supporting documentation must include language indicating that no repayment of the gift or grant is expected and an indication of how the funds will be transferred (to the borrower, the lender, or the closing agent). • The lender must include in the individual mortgage file evidence of the transfer of the funds - such as a copy of the donor's canceled check or a settlement statement showing receipt of the check. • Secured grants must be subordinated to the first lien. <p>Important Exception: If the entire gift is going toward closing costs/prepays (any amount), or being used to pay-off debt of ≤ \$1,000, only the gift letter is required as supporting documentation.</p>

Continued on next page

Rural Development Underwriting Guidelines, Continued

Assets, Continued

Assets Table	
Sale of Personal Assets	Proceeds from the sale of personal property may be used towards closing costs. Documentation for funds obtained should include a bill of sale, bank statement verifying deposit of funds, and when applicable, a transfer of title.

Bankruptcy

(2/20/09)

Bankruptcies completed/discharged >3 years

- ✓ Follow standard credit and underwriting guidelines.

Bankruptcies completed discharged ≤ 3 years

- ✓ FICO must be ≥ 660.
- ✓ Re-established credit (since discharge) must indicate no late payments. Late payments post-bankruptcy does disqualify the borrower.
- ✓ Housing payment must be verified for 12-months showing zero late payments.
- ✓ Ratios may not exceed 29/41%.
- ✓ Payment shock (from current **total** housing to new **total** housing) cannot exceed 100%. (See [Payment Shock](#) for calculation.)
- ✓ MSI requires a copy of the bankruptcy papers and discharge.
 - Full letter of explanation on all derogatory credit
- ✓ Must have clear CAIVRS.
- ✓ Decision based on prudent underwriting judgment is the final determination.

Current, non-discharged bankruptcy

- ✓ Borrowers are not eligible for an MSI Rural Development loan.

Builder Bailouts

MSI will not fund/purchase any loan where the subject property is a Builder Bail Out.

- ✓ MSI defines a Builder Bail Out as any property (Condo, Attached PUD, PUD, sub division or new construction single family—identified herein as “project”) where the Builder has failed to complete the project or it is complete and it has been “taken over” by the bank, its agents, a developer, contractor or any comparable entity, to complete the sale of the project.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Credit

(11/17/10)

Credit requirements are determined by borrower's credit score (aka FICO).

- ✓ Each Borrower must have a minimum of 2 useable FICO scores.
 - MSI will not purchase/fund USDA loans using non-traditional credit.
- ✓ Minimum FICO to be eligible for the product is 640.
- ✓ FICO scores must be determined from the following:
 - All credit scores must be determined from the following approved sources: Experian (FICO), TransUnion (Empirica) and Equifax (Beacon).
- ✓ The loan file must contain:
 - Either a 3-bureau merged credit report **or**
 - A Residential Mortgage Credit Report (RMCR)

(6/02/10)

Minimum Trade Line Requirement

- ✓ In order for the FICO to be a valid score, the credit report **must** contain a minimum of 1 open and active trade line with a minimum of a 12-month payment history.
- ✓ The report must be dated no earlier than 90-days prior to closing (the Note Date).
- ✓ The credit report must:
 - Contain all the standard information required by Fannie Mae/Freddie Mac regarding credit reports, and
 - Include a "SafeScan" check on the borrower social security number, and
- ✓ An OFAC check.

Determining the useable loan score

Borrower Score – determine each borrower's useable FICO

- ✓ If the borrower has 3 valid scores, use the middle score
 - If there are 3 valid scores, and 2 are duplicates, use the duplicate score.
- ✓ If there are 2 valid scores, use the lowest score.
- ✓ If there is only 1 valid score, the borrower is not eligible for MSI.

Loan Score – Use this score to qualify (meet the product FICO guidelines) the loan

- ✓ More than 1 borrower, use the lowest Borrower Score
- ✓ Only 1 borrower, use the Borrower Score
- ✓ Specific credit guidelines apply based on the qualifying loan score:

Continued on next page

Rural Development Underwriting Guidelines, Continued

Credit/Requirements Based on FICO, Continued

(11/17/10) Credit Score \geq 640
<p>(12/06/10)</p> <ul style="list-style-type: none"> ✓ Must have clear credit alert number. (CAIVRS). ✓ Borrowers with inquiries within the past 120 days that may result in credit must provide a Letter of Explanation (LOX). The underwriter must document any new credit obtained (a credit supplement is acceptable) and the new credit must be included in the qualifying ratios. ✓ Borrowers are not required to document adverse credit history expect for those involving delinquent federal debt and/or a previous agency loan. ✓ All Judgments and outstanding tax liens must be paid in full. ✓ Outstanding collections must be paid if the aggregate amount exceeds \$5,000. <ul style="list-style-type: none"> • At the underwriter's discretion of negative risk, MSI may require collections with an aggregate less than \$5,000 to be paid.
(11/17/10) - Credit Score < 640
<ul style="list-style-type: none"> ✓ Loans with a credit score (FICO) less than 640 are not eligible for sale to MSI.
(2/20/09) -No Useable Score –
<ul style="list-style-type: none"> ✓ Loans with no useable FICO scores are not eligible for sale to MSI.

(9/29/11) **Maximum Qualifying Ratios**

- ✓ Qualifying ratios may not exceed 36/48.
- ✓ There are no exceptions to these ratios.

Also see [Qualifying Ratios](#).

Continued on next page

Rural Development Underwriting Guidelines, Continued

Credit, Continued

Credit Qualifying Considerations

- ✓ The total debt ratio should include revolving debt, regardless when the debt will be retired.
- ✓ Installment loans will only be considered if the debt will be retired in more than 6-months.
 - If the debt on the installment is substantial, it should be included in the long term debt.

(9/29/11) **Direct Verification of Other Debts**

- ✓ Lenders must verify the previous 12 months repayment history of additional debts disclosed by the applicant that do not appear on a credit report.
- ✓ Written third party verifications that meet stated guidelines and/or canceled checks or money order receipts are acceptable.
- ✓ Lenders must apply due diligence to every GUS loan file regardless of the underwriting recommendation.
- ✓ The GUS Underwriting Findings Report requires lenders to ensure all liabilities were listed on the credit report and/or made available to GUS.
- ✓ If some debts were not listed on the credit report but manually entered into GUS by the lender, an "Accept" recommendation must be downgraded to a "Refer."
 - A manual underwrite, **by MSI**, must then be completed for loan files with these characteristics (Note that MSI will accept this downgrade only if GUS rendered an "Accept" prior to the additional debt disclosure.)

Note: Non-Purchasing spousal debts not included on the applicant's credit report in GUS do not require a manual downgrade. (See [Non-Purchasing Spouse in Community Property States](#))

Co-signor on a loan

- ✓ If the borrower has co-signed on a loan for another party, an acceptable 12-month history validating that the borrower does **not** make payments is required to exclude the payment from total debt.

Student Loans

- ✓ When a borrower has a delinquent student loan obligation, a satisfactory 6-month repayment history showing on-time payments must be provided.
 - Deferred student loans must be used to qualify. Provide the actual payments or use 1.00% of the principal, simple interest to qualify.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Credit, Credit Considerations, Continued

Credit Counseling

If the borrowers are currently in credit counseling, MSI requires a letter from the agency stating:

- ✓ That the borrowers are fulfilling the terms of the counseling agency
- ✓ The length of time remaining for counseling
- ✓ The terms of the counseling (to ensure the borrowers qualify for the new debt)
- ✓ Whether the agency feels the borrowers can obtain new debt and
- ✓ Whether or not the agency feels counseling should continue after the new debt is obtained.

Non-Purchasing Spouse in Community Property States

- ✓ Except for obligations specifically excluded by state law, the debts of Non-Purchasing Spouse (NPS) must be included in the applicant's qualifying ratios when the applicant resides in a community property state or the property guaranteed is located in a community property state.
- ✓ The NPS's credit history is not considered a reason to deny a loan application.
- ✓ However, the NPS's obligations must be considered in the debt-to-income ratio unless excluded by state law. A credit report that complies with Rural Development requirements must be obtained for the NPS in order to accurately determine the debts that must be counted in the total debt ratio.
- ✓ Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Note: GUS will only retrieve credit reports for applicants. Therefore, lenders must obtain an acceptable credit report outside of GUS for applications in community property states. On the "Asset and Liabilities" application page lenders must enter the debt obligations (those obligations not excluded by state law) of the NPS in the appropriate liability section. In the "Notes" data field lenders should identify the debt as "spousal debt" or "NPS debt." Lenders must retain a copy of the NPS's credit report in their permanent loan case file and submit to Rural Development.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Credit, Credit Considerations, Continued

Previous Mortgage

- ✓ All previous mortgage liabilities disposed of through a sale, trade, or transfer without a release of liability, must be included in the debt ratio calculation unless evidence can be obtained to confirm the remaining party has made payments over the last 12 months.
- ✓ In divorce settlements when one person retains ownership of a residence as a result of the proceedings, it does not imply that the person relinquishing ownership is automatically released of the financial liability associated with an existing mortgage debt.
- ✓ The divorce decree along with a release of liability from the mortgage creditor must be presented as evidence that an applicant is no longer legally responsible for the mortgage payment.
- ✓ If no release of liability is granted by the creditor then the applicant remains legally obligated for the debt.
- ✓ Quit claim deeds do not remove liability for mortgage debts

(9/29/11)

Authorized Users

Borrowers that are Authorized Users on any current, active account(s) must meet the following requirements to be eligible for MSI:

- ✓ The borrower must have at least two other open and active trade lines with a 12 month history each (to ensure a fair credit score).
- ✓ The authorized user account must fit **one** of these three profiles:
 - The account belongs to another mortgage applicant, or
 - The owner of the trade line is the spouse of the applicant, or
 - It must be clearly evident that the applicant has been making payments on the account for the last 12 months.

Conditions/ Stipulations

All "prior to close/prior to doc" conditions/stipulations on loans required must be approved by the underwriter or assignee and the supporting documentation must be included in the loan file.

Continued on next page



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

Rural Development Product Suite

Rural Development Underwriting Guidelines, Continued

Down Payment Assistance

Grants and Down Payment Assistance (DPA/DAP) are permitted provided the following guidelines are met:

- ✓ The **CLTV** must be greater than 80.00%.
- ✓ Seller-funded DAP's/DPA's are not permitted.
- ✓ The DAP/DPA must not contain any special servicing requirements or reporting.
- ✓ The DAP must not "interfere" with the first lien position.
- ✓ "Time-honored" grants are permitted, provided the USDA is in first lien position

FICO Scores

See [Credit](#) for details.

Foreclosure

MSI will not purchase loans for a borrower with a foreclosure within 36 months of the application date.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Guarantee Fee (12/07/11)

Follow current USDA requirements/guidelines for Guarantee Fees.

- ✓ **Purchase UpFront** = 2% of outstanding balance,
- ✓ **Refinance UpFront** = 1.5% of outstanding balance,
- ✓ **Purchase and Refinance Annual Fee** = 0.3% of the outstanding principal balance.

Homeowner Counseling

Homeownership Counseling is not a requirement for every Rural Development loan, however, Counseling may be required by the underwriter for the following reasons:

- ✓ Borrowers with no previous housing experience (ownership or rental).
- ✓ Borrower with no established positive credit trades to demonstrate an ability to handle the proposed housing payment on a timely basis.
- ✓ If "Borrowers to complete Homeownership Counseling" is a condition of the loan it may be satisfied at closing by providing a signed certificate of completion and the household budget worksheet information from one of the following:
 - Fannie Mae's Guide to Homeownership or a comparable program offered by a local non-profit organization or a standard mortgage insurance class.
- ✓ Rural Development offices in the following states require Home Ownership Counseling for all first-time homebuyers.
 - For states not listed below, MSI suggests that underwriters confirm with their local Rural Development offices as many states are considering making counseling mandatory for first time homebuyers.

- | | | |
|------|------|------|
| ✓ CA | ✓ LA | ✓ TX |
| ✓ FL | ✓ MN | ✓ WA |
| ✓ GA | ✓ NE | ✓ WI |
| ✓ IN | ✓ SC | |

Continued on next page

Rural Development Underwriting Guidelines, Continued

HUD Repo

MSI will purchase HUD repo/reo:

- ✓ The finished/completed property must meet HUD Handbooks.
 - ✓ Repairs may be completed after closing as long as escrow for repairs meets current guidelines. See [Repairs](#) for details.
- See [Underwriting/REO/Rep Properties](#) for full details.
-

Income Documentation

Total household income cannot exceed the moderate level for the area as established in USDA Instruction 1980-D, Exhibit C. The income eligibility may be found on the USDA Web Site.

- ✓ Income must be reviewed for a 24 month period.
- ✓ All income within a household (household members over the age of 18) must be considered in the USDA Income Eligibility Limits, regardless whether the household member will be a "borrower" on the loan.
 - Adult household members that are not on the loan application must provide income verification to the lender for their employment status as outlined in this section.
 - This verification must include a Verbal VOE to meet MSI standards.
- ✓ Adhere to USDA/FHA Guidelines.
- ✓ Income must be carefully evaluated for the past 2 years to ensure the stability and continuity of the borrower's income.
- ✓ Verbal VOE must be completed **on all loans** within 5 days of loan closing/disbursement. See [Underwriting/Verbal Verification of Employment](#) for MSI requirements.
 - On **all** loans received for funding/purchase, MSI will perform a verbal verification of employment **prior** to purchase/funding.
 - If the borrower(s) is no longer employed and can no longer qualify for the loan, MSI will refuse funding/purchase.

Salaried

- ✓ Provide the most recent paystub for the most recent 30-day pay period showing year-to-date income.
 - ✓ W-2's for the most recent 2-years.
 - ✓ A verbal VOE must be included **at time of underwriting**, see [Underwriting/Verbal Verification](#) for full requirements and details.
 - ✓ Where there has been a change in employers, the borrower must explain any gap in employment that extends beyond 1 month.
-

Continued on next page

Rural Development Underwriting Guidelines, Continued

Income Documentation, Continued

Self-Employed

- ✓ Self-employed borrowers for this purpose are defined as:
 - Borrowers that own 25% or more of a company or business.
 - Commissioned borrowers
 - Borrowers employed by a relative or closely-held family business
 - Borrowers who are not commissioned, but need to validate their expenses
- ✓ Self-employed borrowers must provide 2 years 1040's and an **audited** financial statement if the application is signed more than 120 days after the end of the business year.
 - Borrower must have 2 consecutive years in the business to consider the income as useable.
 - Newly formed businesses must be in operation for more than 1 year and a history of previous employment in the same line of work.
 - An **audited** financial statement is required if the application is signed more than 120 days after the end of the business year.
- ✓ Self-employed income must be analyzed and averaged over the 2-year period.

Special Considerations

- ✓ **Part-Time Income** – Part-time or second job income with a duration of 24-months may be used.
- ✓ **Alimony, Child Support and Separate Maintenance** – MSI requires documentation that the income will continue for a minimum 3-year period after the date of the mortgage application.
 - The borrower must provide evidence that the funds have been received for the past 12-months. Acceptable evidence included deposit slips, cancelled checks, court records, bank statements showing the same amount deposited each month, or tax returns.
- ✓ **Income from household assets**—Where the family has net family assets (as defined by USDA, Section 1980.302(a)) in excess of \$5,000, the greater of the actual income derived from all net family assets or a percentage of the current assets based on current passbook savings rate may be considered when calculating annual income.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Income Documentation, Special Considerations, Continued

- ✓ **Grossing up Non Taxable Income** - Section 1980.345(c)(2)(ii) of RD Instruction 1980-D allows lenders to *gross up* income that is not subject to federal income tax for repayment purposes.
 - The lender is responsible for verifying income, the non-taxable status of the income, and the likeliness for the income to continue.
 - The amount the lender may *gross up* income is limited to the amount of tax savings attributable to the nontaxable income.
 - Adjustments for an amount other than the applicable tax rate are not authorized. The lender must use the Federal Tax Rate applicable for the year in which the income is earned.
 - The lender must fully document and support the amount of income *grossed up* for any nontaxable income source.
 - RD Instruction 1980-D does not endorse a standard tax rate percentage (i.e. 125%, 120%).
-

Interest Rate - Maximum

The maximum interest rate for the USDA-GRH Program is defined as the greater of the Fannie Mae 90-Day actual/actual yield requirements plus 60 Basis, or the MSI's published first mortgage VA Rate with 0 Discount points/90-day lock price.

- ✓ MSI publishes a maximum GRH Rate on the Price Sheet each day. The FRH loan may not exceed that maximum daily rate. It is the Seller's sole responsibility to ensure that the maximum interest rate is not exceeded on the lock confirmation.

Important: Under no circumstances can the interest on the GRH loan be greater than the max FRH Rate published for the date the loan was locked. USDA will not insure loans closed with an interest rate that exceeds the published maximum.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Interested Party Contributions (5/06/11)

USDA has no limit to the amount of interested party contributions. However, the following guidelines must be met:

- ✓ Contributions may be from the Seller or a family member, a Down Payment Assistance Program or Grant that meets current USDA guidelines. See [Down Payment Assistance](#) and [Assets Table](#).
- ✓ **MSI does not permit Seller Contributions to exceed 6%.**
- ✓ The contributions may be used for down payment, closing costs and/or prepaid items.
- ✓ If the contributions exceed 6%, the excess contributions must be deducted dollar for dollar from the purchase price.

Inspection Requirements

The following matrix outlines the USDA requirements for certain property inspections. See [Appraisal](#) for Well and Termite inspection requirements.

<i>Inspection Requirements Matrix</i>	
New Construction – Property ≤ 1 Year Old	
Builder Providing 1-Year Warranty	Builder Providing 10-Year Warranty
<ul style="list-style-type: none"> ✓ Framing Inspection ✓ Footing Inspection ✓ Final Inspection ✓ Thermal Certification ✓ Satisfactory Well Test (See Appraisal for Well Test details.) ✓ Septic Permit ✓ Occupancy Certification (equivalent for the jurisdiction) 	<ul style="list-style-type: none"> ✓ Final Inspection ✓ Thermal Certification ✓ Occupancy Certification (equivalent for the jurisdiction) ✓ Satisfactory Well Test (potability and flow) ✓ Septic Permit
<p>Note: New construction must meet all requirements noted in the HUD Handbooks.</p>	
Existing – Property > 1 Year Old	
<ul style="list-style-type: none"> ✓ Existing properties must meet the current requirements of HUD Handbooks 4150.2 and 4905.1. Verified through: <ul style="list-style-type: none"> • An RHS Adequacy Certification (Existing Dwelling Inspection Report) Or, • The appraiser certifying in the comments section of the appraisal that the property meets HUD Handbooks 4150.2 and 4905.1. ✓ Satisfactory Well and Septic Inspections are required by MSI. Repairs must complete prior-to-close, must follow HUD Handbook health and safety requirements. 	
<p>Note: Seller must retain copies of all documents in the loan file, whether they were forwarded to the USDA office or not</p>	

Continued on next page

Rural Development Underwriting Guidelines, Continued

Lender Certifications for Repairs

See the [Underwriting Chapter/Property](#) for MSI policy for FHA loans.

Loan-to-Value

The maximum LTV permitted is 100.00%

(7/30/10)

- ✓ Purchase Transactions may include the current USDA Guarantee Fee.
 - Closing costs and pre-paid items that are common and customary to the area may be included in the 100.00% LTV. The underwriter must carefully evaluate to ensure that the closing costs are not excessive.
 - In certain situations, costs for repairs, as required for health or safety may be included in the 100.00% LTV. See [Repairs](#) for additional details.
 - The Guarantee Fee is the **only** amount that can be added to the loan amount to increase the LTV greater than 100%.
 - Discount fees may never be financed.

(11/10/10)

- ✓ Refinance Transactions may include the USDA Guarantee Fee.
 - Closing costs and prepaid items, common and customary to the jurisdiction may be added to the loan amount to a maximum 100% LTV (only with a full URAR).
 - The Guarantee Fee is the **only** amount that can be added to the loan amount to increase the LTV greater than 100%. See [Rural Development Refinance Matrix](#)

Notes:

- ✓ The Guarantee Fee is subject to change without notice. See [Guarantee Fee](#)
- ✓ Discount Points (premium pricing) **may never** be financed in the loan amount.
- ✓ Accrued Interest, Closing Costs and Pre-pays may be included in the loan amount **only** when a URAR is obtained.

Lot Size

See [Property Types](#) for details.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Multiple Properties to One Borrower

Borrowers may only own one property.

Exception: In keeping with RD Instruction 1980-D, section 1980.346(a) a borrower may have another financed property under the following limited circumstances.

- ✓ The Borrower:
 - Does not own a dwelling in the local commuting area, or
 - Owns a dwelling which is not structurally sound, functionally adequate.

Note: See RD instructions and RD AN No 4411 (1980D) for full details. (Also see [Rental Income](#) in this Product Suite.)

Mortgage History

A 24-month history of residence is required on all loan files.

- ✓ See [Credit](#) for mortgage history requirements as they relate to FICO scores.

Non-Occupant Co-Borrower

Not permitted.

Payment Shock

Underwriters must consider payment shock as a risk layer when the following apply:

- ✓ The housing ratio (PITI) exceeds 29% and the proposed housing expense is 100% or greater than the current housing expense, or
- ✓ When the borrower has no history of housing expense.

Calculation for Payment Shock:

Proposed PITI/Current PITI (-1) = _____ X 100 = Payment Shock %.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Personal Interview

MSI requires that the Seller have at least 1 personal interview with the borrower to confirm the information provided on the loan application is valid.

Purchase Agreement (Contract) – Re-Negotiated

MSI will not accept re-negotiated purchase agreements (contracts) that increase the sales price **after** the original appraisal is completed if:

- ✓ The appraised value is higher than the contracted sales price provided to the appraiser, and
- ✓ The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received (completed), and
- ✓ The only change to the purchase agreement is the increase in sales price.

Exception: MSI will permit the re-negotiation of a USDA Sales Contract under the following circumstance:

- ✓ If the re-negotiation is completed to allow for the actual cost of a repair that is already complete, or for the bid amount for a repair intended to be completed by the Seller prior to close:
 - The Contract Sales Price may be increased to cover **only the actual cost of the repairs** and not for any other reason.
 - **Note:** A credit or allowance cannot be given for the repairs, thus the re-negotiation of the Sales Contract is permitted.

Notes:

- ✓ MSI will rely on the appraiser to certify that he/she has seen the purchase agreement.
- ✓ MSI reserves the right to require supporting documentation if any type of real estate scheme is suspected.

Qualifying Ratios (9/29/11)

36/48%

- ✓ Ratios may not be exceeded. See [Maximum Qualifying Ratios](#).

Note:

- ✓ See [Payment Shock](#) for calculation and details.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Refinance
(1/14/09) The following Refinance Matrix outlines the USDA and MSI guidelines for refinance mortgages.

<i>Rural Development Refinance Matrix</i>	
Topic	Refinance Guideline /Requirements
Adding/Deleting Borrowers	<p>At least 1 original borrower from the original loan being refinanced must stay on the new loan.</p> <ul style="list-style-type: none"> ✓ Borrowers may be added and must become a party to the promissory Note and meet eligibility requirements ✓ Borrowers may be deleted; the remaining borrowers must be a party to the promissory Note and meet eligibility requirements.
Appraisal	<p>A complete URAR is required unless the following condition is met:</p> <ul style="list-style-type: none"> ✓ The new loan amount includes only the unpaid principal balance of the current loan (with or without the Guarantee Fee added.)
Eligibility (1/14/09)	<ul style="list-style-type: none"> ✓ Effective for all RD loans locked on/after 1/14/09: To be eligible for purchase by MSI, the refinance loan must have a minimum of 4 payments made prior to the closing date of the new loan. ✓ Loans must be secured by the same property as the original loan. <ul style="list-style-type: none"> • The property must be owned-occupied as the borrower's current principal residence. ✓ The original loan (the one being refinanced) must be a Guaranteed Rural Housing (GRH) or USDA Section 502 Direct only. <ul style="list-style-type: none"> • The original loan may not be any other government (FHA/VA) or conventional mortgage. • Contact the USDA office directly to determine recapture fees on the loan on 502 Direct loans. <ul style="list-style-type: none"> ○ Copy of the current pay-off to document recapture fees must be included in the underwriting file.
Cash Out	<ul style="list-style-type: none"> ✓ Cash Out Refinances are not permitted <ul style="list-style-type: none"> • However, borrowers may receive reimbursement (in cash) from loan proceeds at settlement for personal funds advanced for eligible loan costs that are part of the refinance transaction, e.g. appraisal fee or credit report fee. • Additionally, at settlement, a nominal amount of "cash back" to the borrower may occasionally result due to final escrow and interest calculations. This amount must always be applied as a principal reduction to the new loan, and may not be given as cash to the borrower.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Refinance, Continued

Rural Development Refinance Matrix	
Topic	Refinance Guideline /Requirements
Guarantee Fee (11/10/10) Maximum LTV and Loan Amount	<ul style="list-style-type: none"> ✓ The Guarantee Fee may be financed into any GRH refinancing transaction. <ul style="list-style-type: none"> • Borrowers may finance other closing costs, fees and prepaid items up to 100% of the current appraised value. (Must use a current URAR) <ul style="list-style-type: none"> ○ Closing costs and other prepaid items may never cause the loan amount to exceed 100% LTV. • The value of the new loan is permitted to reach a maximum (100% plus the amount of the current Guarantee Fee) only if the Guarantee Fee is financed into the loan amount. <p>Note: The maximum LTV adjusts according to the Guarantee Fee used.</p>
Interest Rate	<ul style="list-style-type: none"> ✓ The interest rate of the new loan must be fixed, Temporary Buydowns are not permitted. ✓ The interest rate of the new loan may not exceed the interest rate of the loan being refinanced. <ul style="list-style-type: none"> • The interest rate of the new loan does not have to meet the interest rate requirements established in RD Instruction 1980D/§1980.320/Interest Rate.
Late Fees	Unpaid fees on the loan, such as unpaid late fees are not permitted to be paid by the new loan.
Mortgage History	<ul style="list-style-type: none"> ✓ The loans must be current. ✓ No mortgage lates in the past 12 months (0X30).
Mortgagee (7/28/11)	<p>For all Refinance Loans where the Seller is the Mortgagee on the loan being refinanced, the following restrictions/guidelines apply:</p> <ul style="list-style-type: none"> ✓ If the lender being paid off on the HUD-1 is the Seller, and the Seller is not a bank or depository, the loan must be underwritten by MSI, the Seller may not use their delegated authority to underwrite the loan.
Seasoning (1/14/09)	<ul style="list-style-type: none"> ✓ MSI requires all loans to have a minimum of 4-payments made prior to the date of loan closing for the new loan.
Subordinate Financing	<ul style="list-style-type: none"> ✓ Existing subordinate financing may not be included in the new loan amount. <ul style="list-style-type: none"> • All existing subordinate financing must be re-subordinated to the new loan. Special care must be taken to ensure the first lien position of the new loan.
Term	The term of the new loan must be 30-years.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Rental Income Rental income requirements are summarized below, see RD AN #4411 for full details.

Topic	Requirements
Historical Rental Income	If the borrower has a demonstrated history of rental income (a minimum of 24-months, documented via tax returns), the net income may be used to qualify the borrower (s).
Newly signed leases (12/06/10)	<ul style="list-style-type: none"> ✓ Not permitted to be used. MSI will permit offset of debt only if the property has been leased for a minimum 2-years and documented by tax returns.
Exceptions to newly signed lease	<ul style="list-style-type: none"> ✓ USDA permits the income from a newly signed lease on a "conversion" of an existing property to a rental property only under the following 2 circumstances: <ul style="list-style-type: none"> • The borrower is transferred 9or moves) for employment purposes and is no longer in the local commuting area (MSI requires the new location to be a minimum of 50 driving miles from the current property location.) • The borrower currently owns a property that is not structurally sound or functionally adequate for the occupying family. ✓ If the rental income is determined acceptable, the gross rental income must be reduced by 25.00%. (Net rental income that can be used to qualify is 75.00% of the gross monthly rent.) The following documentation is required in the loan file: <ul style="list-style-type: none"> • A copy of the signed lease agreement • Evidence that the security deposit and first month's rent has been received by the borrower
<p>Important Note: The subject property must meet state specific USDA guidelines regarding eligibility (whether or not the borrower is permitted to own property other than the subject.)</p>	

Continued on next page

Rural Development Underwriting Guidelines, Continued

Repairs

(5/06/11)
(10/20/11)

- It is not the intention of MSI or USDA loan to rehabilitate the property.
- ✓ The intent is not to rehab the home; the “rolled in repairs” must only be for health and safety as permitted/required by HUD Handbooks.
 - ✓ Minor health and safety repairs, in keeping with HUD Handbooks 4150.2 and 4905.1, may be included in the maximum LTV.
 - ✓ The following guidelines must be strictly adhered to.
 - USDA and the “delegated” underwriter must approve the inclusion of the repair costs into the loan amount.
 - The loan must close exactly as approved.
 - The borrower may not receive any cash back at settlement with the exception of verified earnest money or Home Owner’s Insurance with paid receipt. Maximum dollar amount limit for repairs is \$10,000, **inclusive** of the holdback amount should the repairs be completed after close.
 - All repairs must be completed by a licensed contractor.
 - See the “Rolling Repairs Matrix” for additional guidelines:

Rolling Repairs Into the Loan Amount Matrix

General Statements

- ✓ Legitimate bids from contractors (licensed if required in the jurisdiction) must be provided for the repairs.
 - Borrowers cannot receive cash for materials for repairs.
- ✓ Cost of repairs can be financed within HUD Handbooks and USDA guidelines.
- ✓ Cost for repairs cannot be included in or listed as a credit on the purchase amount in the Purchase Agreement.
 - The credit/cost must either be removed from the Purchase Agreement or a dollar-for-dollar reduction in the Purchase Price must be made, and the Purchase Agreement amended accordingly.

Repairs Completed Prior to Close

- ✓ The repairs must be inspected by the Appraiser or Licensed Inspector to ensure and certify satisfactory completion. Evidence must be included in the closing file.
- ✓ If the borrower is paying (rolled into the loan amount.)
 - The contractor must be paid by check at settlement from the loan proceeds.
- ✓ If the Seller is paying, the amount is not financed into the loan amount and the repair amount is deducted from the Seller at disbursement.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Repairs, Continued

Rolling Repairs Into the Loan Amount Matrix
Repairs to be Completed After Closing
<p>(12/01/08)</p> <ul style="list-style-type: none">✓ At closing, an Escrow Holdback in the name of the Contractor, in the amount of 1.50% of the completion costs must be held by the Title Company.<ul style="list-style-type: none">• The HUD-1 must clearly evidence this Escrow Holdback.• If the repairs are being paid by the borrower, 1/3 of the Escrow Holdback amount must be funded by the borrower's personal funds.<ul style="list-style-type: none">○ For example, if the repairs cost \$1,000, the Escrow Holdback Amount must be \$1,500 and the borrowers must "fund" 1/3 of that Escrow Holdback Amount or \$500.00.• If the repairs are being paid by the Seller, the entire Escrow Holdback Amount must be deducted from the Seller at close/disbursement.✓ Repairs must be completed no later than 30-days after close/disbursement.✓ The repairs must be inspected by the Appraiser or Licensed Inspector to ensure and certify satisfactory completion.<ul style="list-style-type: none">• Upon evidence of completion, the Title Company may release the funds to the Contractor and to the borrower and/or seller as appropriate.• The completion inspection documentation and proof of the "settlement of the escrow holdback" must be forwarded to the delegated underwriter immediately upon completion.<ul style="list-style-type: none">○ This document is required to complete the insuring/guarantee of the loan. <p>Important: Failure to comply with this process and the resulting failure to insure the loan will result in MSI's request for repurchase by the Seller.</p>
Appliances
<ul style="list-style-type: none">✓ If a credit is placed on the Purchase Agreement for the Property Seller to purchase appliances for the borrower, a bid for the cost of the appliances is required.✓ At settlement, the Title Company will issue a check made out to the Appliance Dealer.<ul style="list-style-type: none">• The borrower may never receive cash at close for appliances✓ Borrowers are always permitted to pay for appliances on the HUD-1 with personal funds.

Reserves

There is no requirement for payment reserves after closing.

Continued on next page

Rural Development Underwriting Guidelines, Continued

Reservation of Funds	<p>Rural Development may or may not require the advance reservations of funds depending upon the Funds for Fiscal Year.</p> <ul style="list-style-type: none"> ✓ Rural Development will advise participants whether or not funds must be reserved, contact you local Rural Development Office if uncertain of the availability of funds. ✓ Effective 10/17/08, the beginning of Fiscal Year 2009, USDA Rural Development is not requiring the reservation of funds process.
Secondary Financing	<p>Not Permitted.</p>
Security Bars	<p>Security Bars (also known as burglar bars):</p> <ul style="list-style-type: none"> ✓ The appraiser must specifically comment and follow state and local requirements with respect to properties using security or “burglar” bars. ✓ There must be an emergency release latch for at least one window in each room where the security bars are located, unless local or municipal code states otherwise. <p>Important Notes/MSI Restriction</p> <ul style="list-style-type: none"> ✓ If there is no alternative escape route for those rooms with security bars, MSI will require a release latch for one window in the room, regardless of local/municipal code or requirements. <ul style="list-style-type: none"> • The appraiser must specifically address, in the case where there is no emergency release latch and the property meets code, that there is a safe, alternative escape route for the room in case of fire or that an emergency release latch is provided for at least one window.
Short Sales (5/06/11)	<p>To purchase a new property MSI requires that the borrower have reestablished credit for a minimum of 3-years after the completion date of a Pre-Foreclosure Sale (also identified as a Short Sale) or a Deed-In-Lieu of Foreclosure.</p>

Continued on next page

Rural Development Underwriting Guidelines, Continued

Social Security Number

Each borrower must have a social security number. The Seller is responsible for the validity of the borrower's social security number.

- ✓ MSI recommends that the Seller run a Social Security number trace on each borrower, especially on loans such as FHA Streamline or VA IRRRL where a credit report is not run.
- ✓ Many nationally recognized credit bureaus offer this service, even when a credit report is not ordered.

Temporary Buydown (1/31/11)

- ✓ Not Permitted.

Trailing Co- Borrower Income

Not permitted

Delivery Requirements

Loan Note Guarantee

Each USDA Rural Development Loan requires a Final Loan Note Guarantee (RD Form 1980-17).

- ✓ It is the responsibility of the underwriting lender (delegated Seller or MSI) to obtain the final guarantee.
- ✓ The Final Loan Note Guarantee (LNG) must be provided to MSI, as a final trailing document, no later than 30-days of MSI loan purchase/funding.

Delegated Seller Delivery Requirements

Sellers that are approved by MSI for delegated USDA-Rural Development underwriting are solely responsible for:

- ✓ Originating and underwriting loans in full compliance with MSI/USDA/FHA.
- ✓ Obtaining underwriting approval from USDA, **and**
- ✓ Obtaining insurance/guarantee (LNG) from USDA/Guaranteed Rural Housing Program (GRH).
- ✓ Complete credit/closing loan packages must be submitted to MSI no later than the earlier of lock expiration or 5 calendar days after close/disbursement.

Loan Note Guarantee Required

- ✓ MSI must receive the LNG from the Seller no later than 30-days after MSI loan purchase/funding.

MSI Underwritten Delivery Requirements

Sellers that submit USDA Rural Development loans to MSI for underwriting and insuring are solely responsible for:

- ✓ Originating loans in full compliance with MSI/USDA/FHA. Knowledge of the USDA requirements is a condition of selling USDA loans to MSI.
- ✓ Submitting timely and complete closing packages to MSI to facilitate the submission for insuring to USDA.
 - Complete closing loan packages must be submitted to MSI no later than 5 calendar days after close/disbursement.
- ✓ MSI submits loans to USDA/GRH for insurance/guarantee.
 - The Seller must cooperate fully with MSI to facilitate the insuring process.

Continued on next page

Delivery Requirements, Continued

Fraud
Prevention
Reports
REV (1/20/12)

Effective for USDA loans approved on/after 1/20/2012:

- ✓ Loans must contain a copy of an **acceptable** Fraud Prevention Report.
 - ✓ "Acceptable" for this purpose is the Final report from the fraud prevention vendor showing that all high risk items related to potential fraud or suspicious activity have been resolved.
 - If an acceptable Final Fraud Report cannot be obtained, the loan is not eligible for funding.
-