



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

Posted 3/03/10

### MSI FHA Overlays

#### Summary

MSI requires that specific MSI guidelines be applied to each FHA loan, regardless of AUS TOTAL Scorecard approval. The topics are presented in alphabetical order to facilitate research.

**Important:**

These guidelines may change without prior notice. This document provides a **quick reference only and is not all-inclusive**. Please see the Seller Guide, [Government Product Suite](#) for full MSI guidelines and details.

MSI FHA Overlays Matrix	
Topic	MSI Requirements
4506-T	<ul style="list-style-type: none"> <li>✓ Tax Transcripts/Record of Account required in each underwriting file submitted to MSI.</li> <li>✓ Closed loans require tax transcripts/Record of Account prior to funding/purchase. See the Seller Guide for full details.</li> <li>✓ A 4506-T is required on each FHA loan, signed by the borrower's at closing.               <ul style="list-style-type: none"> <li>• Except Streamline, see Refinance/FHA Guidelines for details.</li> </ul> </li> </ul>
Anti-Flipping FHA Temporary Waiver of 90-Day	<p>In compliance with the waiver instruction, MSI will allow for all sales of properties which have been owned less than 90 days provided they meet the following criteria:</p> <ul style="list-style-type: none"> <li>✓ The sale must be an arms-length transaction and there can be no identity of interest between the buyers and the sellers or any other interested party to the transaction.</li> <li>✓ The appraisal must reflect the current seller as owner and provide a 3 year transaction history for the subject property not reflecting a pattern of previous flipping for the subject property.</li> <li>✓ The title must reflect the current seller as the owner and no pattern of previous flipping or any multiple transfers of title within the 12 month chain of title.</li> <li>✓ Documentation of open and fair marketing of the subject property is required. FSBO's must be marketed and listed openly for sale or ineligible per MSI guideline restrictions.</li> <li>✓ Verification of <b>each</b> seller's identity is required evidencing no identity of interest, including properties held in corporate ownership, LLCs and trusts.</li> </ul>

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MSI FHA Overlays, Continued

FHA Overlays Matrix, Continued

MSI FHA Overlays Matrix	
Topic	MSI Requirements
Anti-Flipping FHA Temporary Waiver of 90-Day. Continued	<p>For property sales that are a 20% or more increase over the Seller's documented acquisition cost, the following must be provided:</p> <ul style="list-style-type: none"> <li>✓ The FHA Roster appraiser must indicate the seller's legitimate renovation and repair and detail the work performed on the subject property to substantiate the increase in value <b>OR</b></li> <li>✓ If no work was performed on the subject property, the FHA Roster appraiser must provide appropriate explanation and recently sold comps to support the increase in value since the last transfer. <b>AND</b></li> <li>✓ The originating lender must order an independent property inspection report from a licensed entity and provide a copy to the purchaser prior to the closing. The cost may be charged to the applicants.</li> <li>✓ Property inspections must include/address the following:               <ul style="list-style-type: none"> <li>• Satisfactory structure, foundation, floor, ceiling, walls and roof. Exterior construction, siding, doors, windows, any attached building structures, walkways and driveways. Plumbing, electrical, heating and cooling systems; all interior living space; all insulation and ventilation systems; and fireplaces.</li> </ul> </li> <li>✓ Any safety or soundness issues or any inspection findings that affect habitability must be addressed by the FHA roster appraiser.               <ul style="list-style-type: none"> <li>• If FHA roster appraiser doesn't feel qualified to address any specific property issue, then a licensed professional can be hired to address the defect. The charge for this service will be incurred by the seller.</li> </ul> </li> </ul>
AUS	All FHA loans must be submitted to an AUS for TOTAL Scorecard, except FHA Streamline.
Bankruptcy	<p><b>Chapter 13 Buyout Refinance</b></p> <ul style="list-style-type: none"> <li>✓ Maximum LTV 85.00%</li> <li>✓ The loan amount must be sufficient to remove the entire obligation. MSI will not permit "partial" buyouts.</li> <li>✓ Borrower must provide documentation (proof) that the Chapter 13 payments, including the mortgage payment have been made with zero late payments for the past 12-months.</li> <li>✓ The Trustee must provide written permission for the borrower to apply for the refinance.</li> </ul>
Co-Signers	<p>MSI does not permit co-signers.</p> <ul style="list-style-type: none"> <li>✓ Each borrower (co-borrower/non-occupant co-borrower) must sign the Note and the security documents.</li> <li>✓ Co-Borrowers are acceptable. They must meet current FHA/MSI guidelines for qualification.</li> <li>✓ Non-Occupant co-borrowers are acceptable. They must meet current FHA/MSI guidelines for qualification.</li> </ul>

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### MSI FHA Overlays, Continued

#### FHA Overlays Matrix, Continued

MSI FHA Overlays Matrix	
Topic	MSI Requirements
Credit	<p><b>Manual Underwrites</b> (Receives a Refer/Caution decision through AUS TOTAL Scorecard)</p> <ul style="list-style-type: none"> <li>✓ For Sellers with Delegated FHA Underwriting: MSI will fund/purchase only those loans that receive an Approve/Accept Decision.</li> <li>✓ For Sellers for which MSI does the FHA underwriting, MSI may manually underwrite a loan with a Refer/Caution decision, however:               <ul style="list-style-type: none"> <li>• The borrower must provide a letter of explanation on all derogatory credit <b>and</b> all inquiries.</li> <li>• Maximum ratios are 31/43%</li> <li>• If the borrower has a CAIVR alert/default, the loan is ineligible for purchase by MSI.</li> <li>• MSI will <b>not</b> purchase any Refer loan with a 90-day late (in any combination); the maximum late payments on a mortgage trade line for a Refer loan is 1X30 in a 12-month period.</li> <li>• The final decision is solely at MSI's discretion.</li> <li>• Loans must meet the guidelines outlined in ML 2008-11.</li> </ul> </li> </ul>
	<p><b>Outstanding Collections</b></p> <ul style="list-style-type: none"> <li>✓ AUS TOTAL Scorecard approve/accept: Maximum \$5,000</li> <li>✓ AUS TOTAL Scorecard Refer (Manual Underwrite): Maximum \$3,000</li> </ul>
	<p><b>Note:</b> For the AUS Approval to be valid, the borrower(s) must have 2 currently open reporting trades for a minimum of 12-months; if not, the borrower must exhibit a 12-month housing history payment record with no 30-day lates. See ML 2008-11 for additional details.</p>
Down Payment Assistance Programs (DPA or DAP)	<p>MSI will accept Down Payment Assistance (DPA/DAP) Programs, to current FHA guidelines for the applicable product under these additional MSI guidelines:</p> <ul style="list-style-type: none"> <li>✓ CLTV must meet MSI loan parameters.</li> <li>✓ DPA/DAP must be from a government entity (federal/state/municipality) or family member.</li> <li>✓ Reserved for FHA borrowers who do not own any other real estate at time of closing.</li> <li>✓ AUS TOTAL scorecard approval required.</li> <li>✓ Borrowers using a DAP <b>cannot</b> pay over the list price.</li> <li>✓ LTV is calculated on the lesser of the sales (list) price or the appraised value.</li> <li>✓ Tax credit may not be given as cash back to the borrower; principal reduction permitted.</li> <li>✓ The first mortgage sold to MSI is not subject to any terms or conditions of a bond program.</li> <li>✓ The DAP may not restrict the transfer of servicing rights of the first mortgage sold to MSI.               <ul style="list-style-type: none"> <li>✓ Additionally, it may not require prior notification or approval from the sponsoring authority in the event of the transfer of the first mortgage servicing rights.</li> </ul> </li> <li>✓ The loan file must be clearly labeled "DAP" or "DPA" on the front of the file at time of delivery to MSI.</li> </ul>

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MSI FHA Overlays, Continued

FHA Overlays Matrix, Continued

MSI FHA Overlays Matrix	
Topic	MSI Requirements
FICO Minimum	<ul style="list-style-type: none"> <li>✓ 620 FICO for all FHA loans, regardless of AUS TOTAL Scorecard approval or manual underwrite.  <b>Except:</b> <ul style="list-style-type: none"> <li>• 640 FICO required for Cash Out Refinance.</li> <li>• 640 FICO required for Streamline Refinance.</li> </ul> </li> </ul>
Gifts	<ul style="list-style-type: none"> <li>✓ MSI requires that family gift donors be a documented immediate family member.               <ul style="list-style-type: none"> <li>✓ An immediate family member is any person related by blood, legal proceedings, marriage or adoption (e.g. parent or step-parent, sibling, aunt/uncle, child (adoptive or natural), etc.</li> </ul> </li> <li>✓ MSI reserves the right to request documentation that evidences the family relationship.</li> <li>✓ Gifts must meet also meet all FHA requirements and guidelines.</li> <li>✓ Borrowers using gift (or grant) funds for down payment are not eligible for purchase/funding if the total debt (back) ratio exceeds 50%.</li> </ul>
Income Documentation	<ul style="list-style-type: none"> <li>✓ MSI reserves the right to request additional documentation of income (copies of paystubs, W-2's and 1040's) that supersede the limited documentation relief provided in the AUS findings.</li> <li>✓ MSI performs a Verbal VOE for each applicable borrower prior to funding/purchase. If the borrower(s) is no longer employed and can no longer qualify for the loan, MSI will refuse funding/purchase. See the Seller Guide/Underwriting/Verbal Verification of Employment for full details.</li> </ul>
Obtaining New FHA Financing while retaining a current property with FHA Financing	<p>The borrower must <b>always</b> document a minimum 25% equity in all FHA properties held at the time a <u>new</u> FHA loan is requested.</p>

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MSI FHA Overlays, Continued

FHA Overlays Matrix, Continued

MSI FHA Overlays Matrix	
Topic	MSI Requirements
Obtaining New FHA Financing and Converting a current FHA principal residence to an investment property:	<p><b>Converting a current FHA principal residence to an investment property:</b></p> <ul style="list-style-type: none"> <li>✓ <b>To Qualify:</b> Both the current and the proposed mortgage payments (including all Taxes, Insurance, and HOA dues) must be used to qualify the borrower for the new transaction.</li> </ul> <p><b>Exceptions:</b></p> <ul style="list-style-type: none"> <li>✓ Borrowers may use up to 75% of the rental income from the existing property to be used to offset the mortgage payment for qualification purposes if the following guidelines are met:               <ul style="list-style-type: none"> <li>• There is a documented minimum 25% equity in the existing property. The value of the current property must be documented by a Fannie Mae 2055-Exterior, see <b>Important Notes</b>.</li> <li>• The rental income is documented as follows:                   <ul style="list-style-type: none"> <li>○ Fannie Mae Form 1007, single Family Comparable Rent Schedule.</li> <li>○ A copy of the fully executed lease agreement.</li> <li>○ Documentation of the receipt of the security deposit from the tenant (deposited into the borrower's account).</li> </ul> </li> <li>• If the 25% equity in the existing property cannot be documented, rental income may not be used to offset the mortgage payment and the borrower must qualify with both payments.</li> </ul> </li> <li>✓ <b>Employer Relocations:</b> If the homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance they may use 75% of the rental income and are not required to document a 25% equity position in the prior principal residence.               <ul style="list-style-type: none"> <li>• A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required.</li> <li>• FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner.</li> </ul> </li> </ul> <p><b>Important Notes:</b></p> <ul style="list-style-type: none"> <li>✓ MSI will accept only a full Appraisal or as a minimum a Fannie Mae 2055-Exterior to document equity in the converting/departing residence. The appraisal form must be dated within 60-days of the Note date of the current transaction,</li> <li>✓ A <b>former</b> principal residence is exempt from the "conversion of a principal residence to an investment property rule" per Mortgagee Letter 08-25. The property is exempt when it has been rented or claimed as a rental property for <b>at least 12-months</b>, as evidenced on tax returns.</li> </ul>





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## MSI FHA Overlays, Refinance

**Refinance – FHA** The MSI overlays are included in the FHA Refinance Overlays Matrix. See [FHA Refinance](#) for additional details.

FHA Refinance MSI Overlays Matrix	
Topic	MSI Overlay
<b>All FHA Products – Rate/Term and Cash Out -</b>	
Minimum FICO	<ul style="list-style-type: none"> <li>✓ 620 FICO for all FHA loans, regardless of AUS TOTAL Scorecard approval or manual underwrite. <b>Except:</b> <ul style="list-style-type: none"> <li>• 640 FICO required for Cash Out Refinance.</li> <li>• 640 FICO required for Streamline Refinance.</li> </ul> </li> </ul>
CLTV	<ul style="list-style-type: none"> <li>✓ All FHA loans must meet the MSI CLTV limits outlined in the product parameter matrices (See <a href="#">FHA – “Standard” Maximum Loan Amounts</a> and <a href="#">Loan Parameters – MSI FHA High Balance 30 Year – FRM &amp; ARM</a>).</li> <li>✓ MSI does not permit FHA refinance loans to obtain new secondary financing, and existing secondary financing must meet the published CLTV limits.</li> </ul>
LTV Calculation	<ul style="list-style-type: none"> <li>✓ For all loans owned <math>\leq</math> 12-months, base the LTV on documented sales (acquisition) price except when the appraised value is declining.               <ul style="list-style-type: none"> <li>✓ If the value is declining or over supply-6 months, validated by the appraiser, MSI requires recent comps within 90-days of the appraisal.</li> </ul> </li> </ul>
Additional Borrowers	<ul style="list-style-type: none"> <li>✓ Occupant borrowers may be added to the new loan. (Non-Occupant borrowers/co-signers may not be added to qualify.)</li> <li>✓ The new borrowers must have a clear CAIVR (no alerts/defaults) for the loan to be eligible for purchase.</li> <li>✓ <b>Note:</b> Substituting borrowers is never acceptable. At least 1 original borrower from the previous mortgage must remain on the new mortgage and each borrower must be an owner-occupant.</li> </ul>
Properties Listed for Sale	<p>Properties that have been listed for sale within the past 6-months are not eligible for sale to MSI.</p> <ul style="list-style-type: none"> <li>✓ Calculate the timing from the date the property is removed from the MLS to the oldest document in the loan file (application date)</li> </ul>
Rate/Term Prepayment Restriction	<p>For Rate/Term Refinance loans:</p> <ul style="list-style-type: none"> <li>✓ MSI does not permit more than 4% of the prepayment amount on the current loan to be included in the new mortgage loan proceeds.</li> </ul>

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**MSI FHA Overlays, Refinance, Continued**

**Refinance-FHA/MSI Overlays Matrix, Continued**

FHA Refinance MSI Overlays Matrix	
Topic	MSI Overlay
<b>All FHA Products – Cash Out (Back) Requirements</b>	
Cash Back Requirements	<ul style="list-style-type: none"> <li>✓ Minimum 640 FICO for all Cash Out Refinance, regardless of AUS.</li> <li>✓ Borrower must provide a written reason for the cash out.</li> <li>✓ No late payments on the housing history for past 12-months.</li> </ul>
Maximum LTV/CLTV	<ul style="list-style-type: none"> <li>✓ Maximum LTV for cash out refinance is 85.00%.</li> <li>✓ Maximum CLTV for cash out refinance is 85.00%. (Applies to re-subordinated secondary financing; MSI does not permit new secondary financing.)</li> </ul>
Occupancy Requirements	<p>For all FHA Cash Out loan, MSI requires the following:</p> <ul style="list-style-type: none"> <li>✓ The subject property must have been owned by the borrower as his or her principal residence for at least 12 months preceding the date of the loan application.</li> <li>✓ The borrower must document that at least one borrower on the new loan has resided in the subject property as a primary residence for a minimum of 12 months. (However, <b>each</b> borrower on the new loan must be an owner-occupant; non-owner occupants are not permitted for cash-out refinance.) <ul style="list-style-type: none"> <li>○ IRS transcripts for the previous year may be used to document occupancy. <ul style="list-style-type: none"> <li>○ MSI reserves the right to request any other documentation (in lieu of or in addition to the IRS Transcripts) that validates the owner-occupancy of the subject property.</li> </ul> </li> <li>○ The last 12-months chain of title must not reflect any recording or any documentation that would indicate that the borrower(s) have not occupied the subject property as a primary residence.</li> </ul> </li> <li>✓ If the property was acquired within the last 12-calendar months, a cash out refinance for a primary residence may still be made, however: <ul style="list-style-type: none"> <li>○ The loan must clearly document that the subject is the borrower(s) primary residence and</li> <li>○ The HUD-1 from the acquisition must be included in the loan file and per HUD guidelines, the acquisition cost will be used to calculate the LTV.</li> <li>○ If the property was inherited, the borrowers must document that the subject property is the primary residence.</li> </ul> </li> <li>✓ An Occupancy Affidavit (see the MSI Web Site/Forms) must be signed by all borrowers at closing.</li> <li>✓ New non-occupant co-borrower/co-signers may <b>not</b> be added to the new loan in keeping with FHA/MSI guidelines.</li> </ul> <p><b>Note:</b> FHA Cash Out loans not underwritten by MSI will be subject to over-selection for post-purchase audit. The loan files must contain acceptable documentation of owner-occupancy as a primary residence.</p>

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MSI FHA Overlays, Refinance, Continued

Refinance-FHA/MSI Overlays Matrix, Continued

FHA Refinance MSI Overlays Matrix	
Topic	MSI Overlay
FHA Streamline Refinances	
AUS	✓ FHA streamline refinances may not be submitted to TOTAL scorecard in an AUS.
Application	<ul style="list-style-type: none"> <li>✓ MSI requires a fully completed URAR in accordance with FHA Guidelines for Streamline Refinances With an Appraisal.</li> <li>✓ MSI requires that the borrowers provide current employer information on the 1003.               <ul style="list-style-type: none"> <li>✓ MSI will not require income verification, but the name, address and phone number of the current employer must be stated on the 1003.</li> <li>✓ MSI performs a verbal VOE prior to loan funding/purchase. See <a href="#">Underwriting/Documentation Requirements/Verbal Verification of Employment</a> for full details.</li> </ul> </li> </ul>
Income	✓ <b>In addition</b> to the Verbal VOE, the lender must include a signed, dated cover letter (on letterhead) certifying that the borrower is employed and has income at the time of loan application.
Assets	✓ If assets are needed to close, the lender must verify and document those assets.
Borrowers -Adding	<ul style="list-style-type: none"> <li>✓ Proof of Social Security number is required for each borrower on a streamline refinance. Seller is responsible for documenting validity of the borrower's social security number. See <a href="#">Social Security Number</a> for details.</li> <li>✓ If co-borrower is being added, it must be "cleared/approved" through CAIVRs</li> </ul>
Borrowers – Deleting	<ul style="list-style-type: none"> <li>✓ Individuals may be deleted from the title on a streamline refinance only following an assumption of a mortgage in which:               <ul style="list-style-type: none"> <li>• The transferability restriction (due on sale clause) was <b>not</b> triggered, such as in a property transfer resulting from a divorce or by devise or descent</li> <li>• The assumption or recorded quit claim of interest occurred more than 6-months previously, and</li> <li>• The remaining owner/occupant can demonstrate that he/she has made the mortgage payment timely during this time</li> </ul> </li> </ul>
High Balance	✓ MSI does <b>not</b> permit FHA Streamline Refinance loans for the High Balance product. See <a href="#">MSI FHA High Balance</a> .
FICO	<ul style="list-style-type: none"> <li>✓ Minimum FICO is 640 for <b>all</b> FHA Streamline Refinance loans.               <ul style="list-style-type: none"> <li>• This condition must be fulfilled by a tri-merge credit report.</li> <li>• Lenders must enter all credit scores received on the credit report into FHA Connections.</li> </ul> </li> </ul>
Credit	✓ As a reminder, MSI does not accept, Non-Traditional Credit; the borrowers must each have a least 1 valid Credit Score.
4506-T	<ul style="list-style-type: none"> <li>✓ MSI does not require Tax Transcripts for an FHA Streamline loan.</li> <li>✓ Each borrower must sign and date a 4506-T at closing for end-investor quality control purposes.</li> </ul>

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MSI FHA Overlays, Refinance, Continued

FHA Refinance MSI Overlays Matrix	
Topic	MSI Overlay
FHA Streamline Refinances	
Payoff Statement	✓ A current (non-expired) Pay-off Statement from the Servicer must be included in the loan file.
Maximum CLTV	✓ If subordinate financing is in place, the maximum CLTV permitted by MSI is 100%. <ul style="list-style-type: none"> <li>• <b>For Streamline Without an Appraisal:</b> The CLTV is based on the original appraised value of the property.</li> <li>• <b>For Streamline With an Appraisal:</b> The CLTV is based on the new appraised value.</li> </ul>
Loan Amount With Appraisal	The maximum insurable mortgage is the <i>lower of</i> : <ol style="list-style-type: none"> <li>1. Outstanding principal balance <i>minus</i> the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charge on the refinance;</li> <li><b>OR</b></li> <li>2. 97.75% of the appraised value of the property plus the new UFMIP that will be charged on the refinance.</li> </ol> <p><b>Note:</b> Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.</p>
Loan Amount Without Appraisal	✓ The maximum insurable mortgage cannot exceed: <ul style="list-style-type: none"> <li>• The outstanding principal balance <b>MINUS</b> the applicable refund of the UFMIP, <b>PLUS</b></li> <li>• The new UFMIP that will be charged on the refinance.</li> </ul>
Mortgage History	✓ <b>For mortgages with a 12-months payment history or greater, the borrower must have:</b> <ul style="list-style-type: none"> <li>• No 30-day or greater mortgage lates in the most recent 12 months.</li> </ul> ✓ <b>If the current mortgage is less than 12-months:</b> <ul style="list-style-type: none"> <li>• A copy (or copies) of the HUD-1(s) must be included to substantiate history of ownership.</li> <li>• All payments on the mortgage must have been made within the month due (No 30-day lates).</li> <li>• The borrower must have a <b>minimum</b> of 6-months payment received history (payments applied) to be eligible for streamline.</li> <li>• If the borrower has less than 6-months payment seasoning/history on the loan, the loan must be documented and underwritten as a credit qualifying FHA streamline refinance.</li> </ul>
Occupancy	✓ MSI permits only owner-occupied properties for all FHA Streamline Refinances. <ul style="list-style-type: none"> <li>• The borrower must occupy the property.</li> </ul>
Seasoning	✓ At the time of loan application, the borrower must have made at least 6 payments on the FHA-insured mortgage being refinanced.

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MSI FHA Overlays, Refinance, Continued

FHA Refinance MSI Overlays Matrix		
Topic	MSI Overlay	
FHA Streamline Refinances		
Net Tangible Benefit	<p>All FHA Streamline Refinance loans must align with FHA requirements:            ✓ Net Tangible Benefit is defined by FHA as:</p> <p>Reduction in the total mortgage payment (principal, interest, taxes and insurances, homeowners' association fees, ground rents, special assessments and all subordinate liens)</p> <p>OR</p>	<p>The new <b>total</b> mortgage payment is 5%<b>lower</b> than the <b>total</b> mortgage payment for the mortgage being refinanced.  <b>Example:</b> Total mortgage payment on the existing FHA-insured mortgage is \$895; the total mortgage payment for the new FHA-insured mortgage must be \$850 or less.</p> <p><b>Important Note:</b> To clearly demonstrate reduction in payment, MSI requires that the Principal and Interest and the Monthly MI must be reduced 5%. Just a reduction in taxes or insurance is not sufficient to determine a Net Tangible Benefit.</p> <p>This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b) and from a 235 to 203(b).</p>
	<p>Refinancing from an ARM to a FRM</p> <p>OR</p>	<p><b>Fixed Rate to ARM:</b> Fixed rate mortgages may be refinanced to a one-year ARM provided that the interest rate on the new mortgage is at least 2 % points below the interest rate of the current mortgage</p> <p><b>ARM to Fixed Rate:</b> The interest rate on the new fixed rate mortgage will be no greater than 2% points above the current rate of the one-year ARM. For hybrid ARMs, the total mortgage payment on the new fixed rate mortgage may not increase by more than 20 % . <b>Example:</b> total mortgage payment on the hybrid ARM is \$895; the total mortgage payment for the new fixed rate mortgage must be \$1,074 or less.</p>
	<p>Reducing the term of the mortgage</p>	<p>For transactions that include a reduction in the mortgage term, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction.</p> <p><b>Note: Investment Properties/Secondary Residences:</b> MSI does not permit for Government Loans.</p>



### MSI FHA High Balance

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**Overview** FHA loan amounts exceeding Fannie Mae statutory limits for single family and 2-Units are considered **by MSI** to be "FHA High Balance" loans and have additional more restrictive requirements.

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- MSI Loan Limits**
- ✓ **Minimum Loan Amount:**
    - ✓ \$417,001 for single family
    - ✓ \$533,851 for 2 units.
    - ✓ 3-4 Unit properties **not** permitted.
  - ✓ **Maximum Loan Amount:**
    - ✓ \$729,750 for single family
    - ✓ \$934,200 for 2-Units
    - ✓ 3-4 units not permitted
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**MSI FHA High Balance, Continued**

**MSI Overlays** All High Balance loans must meet the current FHA Requirements **and** the following **additional** MSI Overlays.

Topic	MSI FHA High Balance Overlays Matrix
3-4 Unit Properties	Not Permitted for MSI FHA High Balance
Appraisal	MSI requires 2 separate appraisals from 2 different FHA –roster appraisers to be used for each MSI FHA High Balance Loan. ✓ The “qualifying value” must be the lower of the two appraisals. ✓ See <a href="#">Second Appraisal Guidelines</a> for additional details.
AUS	AUS TOTAL Scorecard approve/accept required. No manual underwriting or downgrade permitted.
Cash Out Restrictions	Bankruptcy or Foreclosure within past 7 years (completion to application date) not acceptable for purchase, regardless of AUS.
Credit	Non-traditional credit is not permitted
Declining Markets	✓ Must follow current FHA requirements, ML 2008-09 and MSI requirements where more restrictive. See <a href="#">Declining Markets Policy</a> . ✓ 2 FHA appraisals required (“standard” Cash Out requirement)
Down Payment Assistance	DAP/DPA is not permitted under any circumstances
FICO	✓ Minimum 2 FICO scores for each borrower, middle of 3, lower of 2, lowest of borrower scores used to qualify the loan. ✓ Purchase Transaction: 620 ✓ Rate/term refinance: 620 ✓ Cash-out refinance: 660 ✓ Streamline Refinance: Not allowed.
Mortgage History	LP/DU Approve decision: standard FHA policy applies.
Mortgage Insurance Certificate	For Sellers that underwrite and/or insure their own loans, the MIC must be included in the delivery file. MSI will not purchase a High Balance loan until it has received evidence that the MIC has been issued. Evidence of insurance is considered: ✓ Final MIC, or ✓ A MIC printed from FHA Connection. The path is: Single Family FHA – Single Family Origination – Case Processing - Mortgage Insurance Certificate.
Qualifying Rate	Note Rate
Qualifying Ratios	LP/DU Approve decision: standard FHA policy applies.
Temporary Buydowns	Not Permitted
Streamline	FHA Streamline Refinances are not permitted for MSI FHA High Balance.





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#### VA MSI Overlays

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##### **AUS Decision**

- ✓ For VA loans “underwritten” by the Seller, MSI will fund/purchase only those loans that receive an Approve/Accept decision.
  - ✓ For VA loans “underwritten” by MSI, MSI may consider a loan with a Refer/Caution Decision. The underwriting decision is solely at MSI’s discretion.
  - ✓ See the Seller Guide, Government Product Suite for full details.
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### VA IRRRL – MSI Overlays

#### VA IRRRL – MSI Overlays

The following matrix outlines the MSI guidelines that must be followed **in addition** to the most current VA guidelines.

VA IRRRL MSI Overlays Matrix	
Topic	MSI Overlay
Application	<ul style="list-style-type: none"> <li>✓ MSI requires that the borrowers provide current employer information on the 1003.</li> <li>✓ MSI will not require income verification, but the name, address and phone number of the current employer must be stated on the 1003.</li> </ul>
Appraisal	<ul style="list-style-type: none"> <li>✓ Effective 5/18/09 MSI requires that a conventional appraisal be obtained for each VA IRRRL loan delivered to MSI, the following guidelines apply:               <ul style="list-style-type: none"> <li>• The minimum appraisal form accepted will be a Fannie Mae 2055, exterior with color photos.</li> <li>• MSI conventional appraisal guidelines for completion and underwriting apply. See the Underwriting chapter for details.                   <ul style="list-style-type: none"> <li>○ A Market Conditions Addendum (1004 MC) must be included with the conventional appraisal.</li> </ul> </li> <li>• <b>Important Note:</b> The conventional appraisal is for the use of MSI and subsequent investors only; the VA has advised that the conventional appraisal <b>should not</b> be submitted to the VA with the guaranty package.</li> <li>• The Seller must address any required repairs.</li> <li>• Repairs that impact safety, livability or habitability must be completed.</li> <li>• The property condition must be rated "average" or better; MSI will not purchase any loan with a property rated "fair" or less.</li> </ul> </li> <li>✓ MSI does not purchase VA "high balance" loans.</li> <li>✓ MSI requires that the appraised value of the property be <math>\geq</math> the total loan amount (total loan amount = base loan amount plus VA funding fee).</li> <li>✓ MSI will not purchase a VA IRRRL loan where the total loan amount exceeds the current appraised value of the subject property. Therefore, the maximum LTV is 100.00%.</li> </ul>
Credit	The borrower must have a clear CAIVR.

*Continued on next page*



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VA Loans, Continued

VA IRRRL – MSI Overlays, Continued

VA IRRRL MSI Overlays Matrix	
Topic	MSI Overlay
FICO	<ul style="list-style-type: none"> <li>✓ Each borrower must have at least 1 FICO score and the minimum FICO for VA IRRRL is 620.</li> <li>✓ This condition must be fulfilled by a tri-merge credit report.</li> </ul>
Mortgage History	<ul style="list-style-type: none"> <li>✓ Loan must be current at time of closing for the new loan.</li> <li>✓ No 30-day or greater mortgage lates in the most recent 12 months are permitted.</li> <li>✓ If the current mortgage is less than 12-months, a copy (or copies) of the HUD-1(s) must be included to substantiate history of ownership.</li> <li>✓ Mortgage trade-lines to show 12-month mortgage payment received history (payments applied), the following additional guidelines apply:               <ul style="list-style-type: none"> <li>✓ The borrower must have a minimum of 6-months payment received history (payments applied) with the current lender to be eligible for streamline (IRRRL).</li> <li>✓ If the borrower has less than 6-months payment seasoning/history with the current lender, the loan must be documented and underwritten as a credit qualifying VA IRRRL.</li> </ul> </li> </ul>
Occupancy	<ul style="list-style-type: none"> <li>✓ MSI permits only owner-occupied properties for VA IRRRL.</li> </ul>
4506-T	<ul style="list-style-type: none"> <li>✓ MSI requires that each borrower sign a 4506-T at closing.</li> </ul>
Underwriting	All VA IRRRL loans must be manually underwritten.
<p><b>Important:</b> All VA IRRRL's must meet VA guidelines. See the following Web Site for additional assistance.  <a href="https://vip.vba.va.gov/portal/VBAH/Home">https://vip.vba.va.gov/portal/VBAH/Home</a></p>	

