



Mortgage Services III, LLC

A Subsidiary of First State Bank Member FDIC

Correspondent Partner Announcement

"Striving to be the Best...not the biggest."

Issue Date 3/19/09

Effective Date As Noted

CPA 2009-010

Ohio Restrictions and Various Clarifications and Revisions

Purpose

This communication:

- ✓ Publishes MSI's requirements for the Ohio Consumer Sales Practice Act.
- ✓ Clarifies our position regarding state-specific requirements.
- ✓ Clarifies Rural Development use of rental income.
- ✓ Revises/clarifies our position for pre-purchase Verbal Verification of Employment.
- ✓ Clarifies and revises FHA Cash Out and MSI maximum combined loan-to-values (CLTV).
- ✓ Clarifies MSI requirements for documentation of rental income.
- ✓ Revises maximum number of acres acceptable to MSI.
- ✓ Removes PMI and UGI as approved contract underwriters and mortgage insurers.
- ✓ Clarifies that suspension fees may be charged as a "marketing loss charge."
- ✓ Provides a reminder for Home Valuation Code of Conduct.

Effective Date

As Noted.

Ohio

We will add Ohio to our State Restrictions section in the Product Suites with the following language:

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.

State Restrictions

- ✓ 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.

Continued on next page

CPA-09-010

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Page 1 of 4





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USDA Rental Income

In December, 2008, USDA issued Announcement #4411. MSI has published and clarified the USDA/MSI guidelines for use of rental income in our updated Rural Development Product Suite. See the Rural Development Product Suite and RD AN #4411 for full details.

Verbal Verification of Employment

Effective Immediately:

As the credit market continues to tighten, MSI is faced with ever more restrictive post-purchase audits from our secondary market investors.

MSI Underwritten:

- ✓ On **all** loans received by MSI for underwriting (underwritten by MSI), MSI will perform, **prior to underwriting the loan**, a Verbal VOE to confirm that the borrowers are still employed. If the borrower and/or co-borrower(s) are no longer employed and it appears they can no longer qualify for the loan, MSI will return the loan **without underwriting**.
- ✓ MSI will no longer require (or audit for) the Seller to perform a Verbal VOE at time of underwriting.
 - However, we do very strongly recommend that all Sellers perform a Verbal VOE at time of underwriting to avoid underwriting loans that may not be saleable.

MSI Funded/Purchased:

- ✓ On **all** loans (including FHA/VA streamline refinance loans) received for funding/purchase, MSI performs 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.
- ✓ MSI requires that Sellers perform a verbal verification of employment for all applicable borrowers on all loan types (including FHA/VA streamline refinances) no sooner than 5 calendar days prior to close; **we highly recommend that the calls be made as late as 2 calendar days prior to closing**.
- ✓ **Note:** MSI will no longer require (or audit for) the Seller to perform a Verbal VOE at time of underwriting.

Continued on next page

CPA-09-010

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Page 2 of 4





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FHA CLTV

Effective 3/12/09

- ✓ Sellers are reminded that all FHA cash out refinance loans must be in full compliance with ML 2009-08 and MSI, where more restrictive.
- ✓ As noted in the ML 2009-08, non-occupant co-borrowers/co-signers may not be added to the cash out refinance loan in order to meet FHA's credit underwriting guidelines for cash out refinance.

Effective 3/20/09

- ✓ MSI is revising and clarifying that the MSI maximum CLTV for cash out loans is 85.00%. Existing subordinate financing may remain in place, but the CLTV may not exceed 85.00%. MSI does not permit new subordinate financing on FHA refinance loans.
- ✓ MSI is adding the overlay that new non-occupant co-borrowers/co-signers may not be added to the new cash out refinance loan.

Documentation of Rental Income

MSI is clarifying our requirements for documentation of rental income:

- ✓ When the borrower is using rental income to qualify (regardless whether as a property investor, or in the case of a newly converted principal residence to investment property) if the borrower does not have a minimum of 1-year's tax return to document rental income, MSI requires that an appraiser provides the appropriate comparable rent schedule to validate the comparable rents for the investment property.
 - The single family comparable rent schedule is the Fannie Mae 1007.
 - Small Residential Income Property Appraisal Report (1025) for 2-4 units.
- ✓ MSI also requires a copy of the fully executed rental agreement and evidence of receipt of a security deposit and applicable rent.

Maximum Number of Acres

Effective for loans locked on/after 3/20/09

- ✓ MSI maximum acreage is 10. MSI will no longer consider loans where the subject property is located on land that exceeds 10 acres.

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CPA-09-010

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Page 3 of 4





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PMI and UGI

Effective Immediately

- ✓ PMI and UGI are no longer approved mortgage insurance or contract underwriters for MSI. Loans locked on/after 3/19/09 must use a MSI-approved MI company.
- ✓ **PMI** - For loans locked with MSI prior to 3/19/09, if PMI is used either as a contract underwriter or an insurer, the Seller warrants, by sale of the loan to MSI that the loan meets all MSI guidelines and the PMI insurance certificate is valid and enforceable.
- ✓ **UGI** - If a loan is locked with MSI prior to 3/19/09 and has been either contract underwritten or insured by UGI, MSI will accept the Notice of Loan Approval (NOLA) and/or insurance certificate as long as it is dated prior to April 1, 2009.

Marketing Loss Fees

Reminder:

Loans that are placed in a Funding Suspension are subject to Marketing Loss Fees (including, but not limited to Extension Fees, Suspension Fees and/or worse case pricing) in compliance with late or defective delivery policies for Best Efforts loans.

Home Valuation Code of Conduct

Reminder:

By delivery of a conventional loan to MSI with an application date on/after 5/01/09, the Correspondent warrants to MSI that they are in full compliance with the Home Valuation Code of Conduct.

See Fannie Mae Announcement 09-01 for full details.

Seller guide

The applicable updated Seller Guide chapters will be posted within 24-hours of the effective date.

Questions

Please contact your Correspondent Account Executive with any questions.

CPA-09-010

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Page 4 of 4

