



FLANAGAN State Bank



Important Announcement

6/18/2020

This announcement includes notices regarding updates for Flanagan State Bank's Retail & TPO Division

This will reference:

FHA & USDA 620 – 659 Overlays (reminder)

Independence Day Observed– July 3rd

Lock Days – update

Scenario Email

COVID 19 Important Information

FHA & USDA 620 – 659 Overlays

Flanagan State Bank is accepting FHA & USDA loans down to a minimum credit score of 620. This memo serves to remind originators working with Flanagan State Bank of the overlays that will apply to these credit score ranges. **There are no exceptions allowed to these overlays.**

- Verification of Rent (VOR) will be required on all files where the borrower(s) identify they rent in the residence history. *No late payments reporting in the last 24 months*
- If borrower does not rent, a Rent-Free Letter will be required from the current owner of the residence. Rent Free Letter should confirm the most recent 12-month history.
- If the borrower does not rent but has a mortgage, the mortgage *must not report any late payments in the most recent 24 months*
- *Homebuyer Education Course required.* MGIC or FHLMC Credit Smart courses are acceptable and are provided at no cost to the borrower.
 - A certificate must be provided as proof of completion and a budget completed by the borrower
 - If borrower currently has a mortgage that reports on credit, Homebuyer Education can be waived (budget will still be required)
- No late payments allowed on all other credit within the most recent 12 months
- No overdrafts or NSF's allowed in most recent 12 months
- DTI limited to 50% max. If >50% then the following will apply:

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- Management approval is required for DTI above 50% and not exceeding 55%
- 2 compensating factors must be present and documented on the file from the following:
 - 2 months PITI reserves – must be the borrowers own funds
 - 2 years or more on the current job/employer
 - 4 validated tradelines showing paid as agreed for 12 months or longer (rent may be one)
- If payment shock >50%, the following will be required:
 - 2 months PITI reserves – must be borrowers own funds
 - 2 validated tradelines paid as agreed for 12 months (rent may be one)
- Borrower(s) currently in CH 13 Bankruptcy or Credit Counseling Plan are not eligible for financing
- Collection & Charge Offs (non-medical collections)
 - If non-medical collections are present within the most recent 12 months, the max DTI will be limited to 45% for FHA and 41% for USDA, regardless of findings
 - A max of \$750 in non-medical collections (aggregate) will be allowed within the most recent 12 months
 - All collections within the most recent 12 months MUST be paid in full and may not exceed the \$750 aggregate mentioned previously
 - All funds used to pay collections must be sourced
 - Collections will be determined as within 12 months old by date collections shows as opened on the credit report
 - Collections outside of the 12 months must meet regular FHA guidelines and findings guidance
- Letter of Explanation for all derogatory credit is required.
- Gift Funds – not allowed on files with DTI >45%
- Borrower's reserves must be liquid funds. Retirement funds will not be counted for PITI reserves.

Independence Day Observed

FSB will be celebrating Independence Day with our offices closed on July 3rd. Please plan accordingly.

Lock Days – Update

FSB is expanding out pricing and updating our Lock Days to include 30-day lock periods in our better priced options. You will see improvement for this lock period over the next few days. We are now allowing locks for 15- and 30-day periods.

Scenario Email

Please note that we will be discontinuing the use of scenarios@flanagansstatebank.com. Please direct all emails for your scenario questions to our Mortgage Support team at mtgsupportcenter@flanagansstatebank.com.

COVID 19 Important Information

The following underwriting guideline updates are effective for all loans submitted/resubmitted to underwriting on or after June 11, 2020.

Self – Employment Income

An unaudited year-to-date (YTD) profit and loss statement that is signed by the Borrower and reports business revenue (i.e., gross receipts or sales), expenses and net income. The information in the YTD profit and loss statement must cover the most recent month preceding the Application Received Date and be dated no more than 60 calendar days prior to the Note Date, and

Two months business account statements no older than the latest two months represented on the YTD profit and loss statement

For example, if the YTD profit and loss statement is through May 31, 2020, the business account statements can be no older than for April and May

Personal asset account statements evidencing business deposits and expenses may be used when the Borrower is an owner of a small business and does not have a separate business account

Or

An **audited** YTD profit and loss statement reporting business revenue (i.e., gross receipts or sales), expenses and net income. The information in the YTD profit and loss statement must cover the most recent month preceding the Application Received Date and be dated no more than 60 calendar days prior to the Note Date.

Note: The Seller may need to obtain additional documentation to supplement the minimum required documentation in order to effectively assess the impact of the pandemic on the business.

Underwriting will review Profit and Loss in accordance with Freddie Mac Bulletin 2020-19.

Business Assets

Loan proceeds from the SBA Payroll Protection Plan (PPP) and/or any other similar COVID-19 related program are not considered business assets for the purpose of eligible funds to qualify the Borrower for the Mortgage transaction, including, but not limited to, funds for Down Payment, Closing Costs and reserves.

Verification of Current Existence of Business

The requirements and guidance regarding verifying that the borrower's business is open and operating within 10 business days prior to the Note Date continue to apply.

Refinance Loans in Forbearance or previously in Forbearance

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Please see the attached Freddie Mac Selling Guide Bulletin 2020-17 and Fannie Mae Lender Letter 2020-03 (page 4 and 5) for eligibility requirements and required documentation.

If you have any questions regarding this information, please feel free to contact mtgsupportcenter@flanagansstatebank.com.

Sincerely,

Flanagan State Bank Mortgage Division Management