



FLANAGAN State Bank



Important Announcement

7/19/2016

This announcement includes notices regarding updates for Flanagan State Bank's Correspondent and Wholesale Accounts.

This will reference:

Update to USDA Flood Insurance Requirements

USDA Collections Policy updated by FSB

Reminders – GUS Sign Up & Tax Transcript Ordering

Update to USDA Flood Insurance Requirements

FSB has updated the Flood Insurance Requirement for USDA to match the 3555 Handbook requirements:

- RD max deductible for a flood insurance policy should not exceed the greater of 1,000 or 1% of the face amount of the policy

Please note for future and current loans that this is applicable to.

USDA Collections Policy Update by FSB

Effective immediately, FSB has updated their USDA Matrix for the following:

LOX (Letters of Explanation)

Any and all derogatory credit must be addressed in an LOX FROM THE BORROWER. The letter must be signed and dated. The letter must reference in detail, what happened to create the negative information, how it was resolved and what the borrower has done to insure the situation will not happen again.

The borrower must also provide supporting documentation to validate the letter of explanation. The supporting documentation and explanation must be consistent with other credit information in the file.

Collection Accounts – GUS Approve

Unpaid open collections could affect the future ability of an applicant to repay a mortgage when creditors pursue collection. In an effort to minimize future risk of open collections left unpaid, the lender will consider the following during the capacity analysis of the loan request, regardless of the method utilized to underwrite:

1) Determine if the total outstanding balance of all collections accounts of all applicants is equal to or greater than \$2,000. Unless excluded by state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance of all collections.

2) Remove all medical collections and charge off accounts from the total balance.

Medical collections and charge off accounts must be clearly identifiable on the credit report.

3) If the remaining outstanding balance of collection accounts are equal to or greater than \$2,000, any of the following actions will apply:

a. Payment in full of all collection accounts at or prior to closing.

b. Payment arrangements are made with each creditor for each collection account remaining outstanding. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements. The agreed upon monthly payment for each outstanding collection account will be included in the borrower's debt-to-income ratio.

c. In the absence of a payment arrangement, the lender will utilize in the debt-to-income ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

Collection Accounts – Manual Underwriting

From USDA Manual:

Whether a collection account represents a greater risk is entirely the lender's decision, regardless of the credit score. This decision will be based upon several factors including the credit profile of the applicant(s), the amount of meaningful financial reserves available, the unpaid balance of the collection accounts, and whether they pose a threat to the first mortgage lien and are likely to affect the applicant's equity or ability to repay the requested loan.

FSB will follow the following policy:

- All collections & charge-offs must be included on the application unless paid and closed
- For any collections outstanding within the most recent 24 months that are \geq \$1000 (aggregate or individual) these will require payment in full unless:
 - A letter of explanation can be provided that identifies outside factors that were outside of the borrowers control such as illness, accident, death of a family member, loss of job, etc.
 - LOX must be supported with documentation of the facts included in the letter
- For any collections outstanding within the most recent 24 months that are \leq \$999 (aggregate or individual), FSB will analyze to determine if these will be required to show paid in full

prior to closing or if a 5% of the outstanding balance can be utilized in the DTI in lieu of being paid in full.

- If a payment plan is set up prior to loan application and showing a minimum of 3 months paid as agreed, this may be an alternative to paying off the accounts.
- Lender will evaluate all outstanding collections, complete application and credit profile and determine if collections pose a risk to the lien
- The LO submitting the file should include a note to the UW identifying if a collection(s) should be left open and why.

Reminders – GUS Sign Up & Tax Transcript Ordering

If your company and Loan Officers would like GUS access, please email tpoinfo@flanagansstatebank.com to get instructions for signing up for GUS through FSB.

All companies are now required to request tax transcripts through Old Republic directly for loans submitted to FSB. FSB will pay for this service and users will require a specific log in to Old Republic. To request a log in, please email tpoinfo@flanagansstatebank.com.

If you have any questions regarding this information, please feel free to contact your Account Executive.

Sincerely,

Flanagan State Bank TPO Division Management