



Important Announcement

7/7/2020

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

This will reference:

FHA 620 – 659 Overlays (reminder)

USDA 620 – 659 Overlays

VA Loans – Score Update

FHA 620 – 659 Overlays

Flanagan State Bank is accepting FHA 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:
 - 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:

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- 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:
 - o 2 months PITI reserves – must be borrowers own funds
 - o 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)
 - o 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
 - o A max of \$750 in non-medical collections (aggregate) will be allowed within the most recent 12 months
 - o All collections within the most recent 12 months MUST be paid in full and may not exceed the \$750 aggregate mentioned previously
 - o All funds used to pay collections must be sourced
 - o Collections will be determined as within 12 months old by date collections shows as opened on the credit report
 - o 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.

USDA Overlays (620-659)

Effective as of July 7, 2020 the overlays in effect for this score range have been removed. FSB will proceed with USDA loans down to a 620-score following their normal matrix, USDA handbook and risk review.

VA Loans – Score Update

Our VA loans are now accepted down to a 640-credit score effective July 7, 2020.

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

Sincerely,

Flanagan State Bank Mortgage Division Management

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