



Important Retail Memo

Please read through this memo as the information we are sharing with you is important and may influence future loans.

Early Payment Defaults

This is one of the largest concerns when it comes to underwriting & funding loans. Our track record was very, very good on this topic. An Early Payment Default is defined as a borrower who does not pay on their mortgage within the first 6 months of the loan. ***In the recent 2 months we have 5 loans become Early payment default loans.*** 4 were FHA loans and 1 was a Freddie Mac (Conv) loan. When this occurs, we get scrutinized by the agencies who insure the loan and the investors we sell the loans too. They do reviews on the files; we will do reviews on the files and the auditors will also want to know what happened. By completing these reviews, we can hopefully determine a pattern and a reason as to why did these loans default. This is when the criteria will tighten up to help eliminate these situations. Most Early Payment Defaults do not recover from the delinquency and do end up in foreclosure. It is important to get a handle on this potential problem, once identified, immediately. During our reviews, we noticed the following patterns for the delinquent loans:

- 1) Information on the Initial 1003 does not match the final underwriting information:

There appears to be dramatic differences in the information from start to finish. More accurate information from the beginning of the file would help reduce the chances of missed information and discrepancies. In addition, the documenting of the 1003 must be completed in full. For example: If the initial 1003 identifies that the borrower pays \$150 in child support each month, but the paystubs show a garnishment for \$300 that turns out to be the child support each month, the file should have the divorce decree or court order to support this information along with the birthdates of the children. The 1003 should be updated in Mortgagebot with the correct information and note to the UW explaining the update contained in the file and signed by the LO. The Note should advise on why the lower amount was on the initial 1003. This may need to come from the borrower if they completed the 1003.

- 2) Appraiser notating issues with the property in the notes, but not adding to the "subject to" section.

FHA has advised us further on this topic. We are to get clarification on if there is a cost to cure for those items and have it added to the appraisal. We do get push back from the appraisers on this but we will have to be more persistent to get the information needed.

- 3) Child Support

More documentation will be needed on this. We have been advised that the due diligence must be done to insure accuracy in the payments we will be using. All court documentation will be needed to make sure we capture the accurate payments. All documentation should coordinate

in a file. If the borrower is garnished for a certain amount, we will need the court order to show the exact amount to match. We will also need the original child support order for the file.

It is very, very important to have a strong interview with the applicant. The information contained on the 1003 must be supported by documentation. What is on the 1003 MUST be supported and verified. If inaccurate information is provided, we will require an LOX on the differences to satisfy any audits that may pick up on the differences.

Thank you for your attention to this topic. Should you have any questions, please feel free to email us at suggestions@flanagansstatebank.com.

FSB Mortgage Division Management Team