



## Important Announcement

4/28/2020

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

**This will reference:**

FHA & USDA – 620 – 659 Overlays - Revised

**FHA & USDA 620 – 659 Overlays**

Effective Monday, April 27, 2020 Flanagan State Bank will begin accepting FHA & USDA loans down to a 620-credit score. This memo serves to notify originators working with Flanagan State Bank of the overlays that will apply to these credit score ranges. This 2<sup>nd</sup> memo on the topic is a revised memo and has highlighted additions to the original memo.

- 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
- 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:
    - 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%

If you have any questions regarding this information, please feel free to contact [mtgsupportcenter@flanagansstatebank.com](mailto:mtgsupportcenter@flanagansstatebank.com).

Sincerely,

Flanagan State Bank Mortgage Division Management