



FLANAGAN *State Bank*



## Important Announcement

2/5/2021

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

### **This will reference:**

FHA Overlay Updates

### **FHA Overlay Updates**

Effective as of 2/8/2021, FSB has updated our overlays on the FHA loan product for Credit Scores of 620 – 659 to the following:

- Loan must receive an approve/eligible through DU
- 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.
- *Homebuyer Education Course required.* MGIC or FHLMC Credit Smart courses are acceptable and are provided at no cost to the borrower.
  - If borrower currently has a mortgage that reports on credit, Homebuyer Education can be waived
- DTI limited to 50% max. If >50% or =<55% then the following will apply:
  - 2 compensating factors must be present and documented on the file from the following:
    - ❖ 2 months PITI reserves – must be the borrowers own funds
    - ❖ 4 validated tradelines showing paid as agreed for 12 months or longer (rent may be one)
    - ❖ 2 years or more on the current job/employer
- If payment shock >50%, the following will be required:
  - 2 months PITI reserves – must be borrowers own funds
- Borrower(s) currently in CH 13 Bankruptcy or Credit Counseling Plan are not eligible for financing
- Letter of Explanation for all derogatory credit is required
- Gift Funds – not allowed on files with DTI >50%

A manual underwrite is not out of the question for this score range, however, the following will apply for a manual underwrite:

- The loan must meet the above overlay requirements, except for the approve/eligible.
- Refer/eligible must be received on the findings
- Loan must be sent to Mortgage Support for a review and prequal assessment. Mortgage Support will write up the file, if all overlays are met and credit review is acceptable and

**333 Chicago Road, PO Box 302 – Paw Paw, IL 61353 – 815.676.0990**

obtain management approval of the file before sending the confirmation back to the Loan Officer. Please allow Mortgage Support adequate time for this to be completed.

- Any files for this score range submitted to Underwriting without this Pre-review will be suspended and returned to the Loan Officer to get this completed before any underwriting review will be completed.

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

Sincerely,

Flanagan State Bank Mortgage Division Management