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From: Toni Pierce
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To: Sales; Mortgage Support Center; Dave Weber; Joshua Heinrich; Justin Yahnig; Rebecca Moorehead; Robert Anderson; Toni Pierce; Wayne Pierce
Subject: Update 1 for the week of February 1, 2021
Attachments: Denial Form.pdf; New Construction Loan Checklist.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

We have **A LOT** of information to share with you! This email will be a bit longer, but containing information relevant to your positions! **Please read it all the way through.** Another email will be coming out on Thursday with even more information. Today's update focuses on Operations and Underwriting updates.

FHA New Construction Update!

Well, we thought this was going to become easier....they took away the 10 year builder warranty requirement but now have added on a new inspection that is required if a property does not have a certificate of occupancy. Attached you will find the new updates for our "New Construction Loan Checklist".

Denial Form

To help make this easier, we have a new form! Simple complete, add to the file and email the appropriate department or final the file. And, you are done! HMDA made easy. The new form is attached, please start using it immediately!

Homebuyer Education

Homebuyer Ed must coordinate with the AUS findings and satisfy the program the borrower is being approved for. **All FNMA approved loans (DU) must use Framework for the homebuyer Ed. All Freddie approved loans(LP) must use Credit Smart. All FHLB Grants it is recommended to use Framework through the Grant website to capture the counseling piece. All FHA loans must use a HUD Approved course unless the requirement is to satisfy our specific overlay requirements then AND ONLY THEN can the course be the MGIC homebuyer education.** USDA and VA will follow the same guidance as FHA. Framework course always has a fee. It is typically \$75 but when using the grant, the cost will be more depending on the cost of the counseling. Credit Smart and MGIC are both Free courses. AND, a certificate is ALWAYS required to prove the borrower completed the course.

VOE's on BIP

We do love our acronym's....Moving forward, these forms will be accepted with just a contact on them. The ordering team will use that information to order the VOE. If it is not correct, they will try Google. If Google does not provide enough information to get a VOE ordered, they will set the order aside and contact the LO using the Pro email for further assistance. This will then be on the LO/LOA to get information that will allow the VOE to be ordered. The processor will not be responsible for this! If a request is sent out needing further information, we will not accept a phone number to the borrower as this will not speed anything up. We want a contact with email or phone at the employer!

Pending 2nd Review Files

Think of this as Disclosure Suspense conditions. This will be on the approval notice. This section has been created to allow better communication on what is still outstanding to move the file to the processor. The reports should still be reviewed, but this will help clarify what is needed from the LO.

Changing Products

Any time a loan changes to an FHA product, the file should be denied and started over.

Income Worksheets

As noted in a previous memo, Mortgage Support will prepare the new worksheets for Self Employed borrowers (Conventional) that are required due to COVID. It is important that all information is received to allow us to finish the worksheets properly. We will require a 12 month YTD P&L (must be the most recently completed full month), 3 months bank statements for the business and all appropriate tax returns and any W2's paid to the borrower from the business.

In addition, Mortgage Support will complete any income calculation for any borrowers. Use your resources to manage your time!!! If this team is willing and able to do these, then our LO's, LOA's and Processors can move on to other tasks needed that help get the files prepped for underwriting.

Vendors in Mortgagebot

Mortgage Support recently spent December and January cleaning up the vendor screens. There have been several added that were not added by Mortgage Support over the last 30 days. Please do not add any vendors. All information should be sent to Mortgage Support to update the vendor's for you to use. The information must be complete for them to add your requested vendor, too.

Please let us know if you have any questions! Update #2 will be out on Thursday!

The opinions contained herein are based on a proposed loan scenario presented to us by you. They are non-binding, intended to be informational only, and under no circumstances are to be construed as a commitment to purchase the loan. The Seller/Loan Officer is responsible for the information provided to Mortgage Support/Assisted Correspondent or Scenarios to insure we have the most/best information to provide an accurate response for the situation being discussed. Delegated customers are responsible for making their own credit decision with respect to the loan. All loans submitted to Flanagan State Bank are subject to the terms and conditions of the matrix's published on our website and the Agency guidelines that apply to the loan type.

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Denial/Withdrawn Reason Form

Loan #: _____ Borrower Last Name: _____

LO: _____ Date of withdrawal/denial: _____

Is this a Withdrawal or Denial ?

If withdrawal, what is the reason: _____

Please upload supporting documentation, as needed.

If the file is a Prequal, you may not withdraw this file!

Denials must have a reason checked below. Please mark all that apply:

Incomplete credit application Insufficient number of credit references

Unacceptable type of credit references provided Unable to verify credit references

☐ Temporary or irregular employment ☐ Unable to verify employment ☐ Length of employment

☐ Income insufficient for amount of credit requested (ratios) ☐ Length of residence

☐ Excessive obligations in relation to income ☐ Unable to verify income

☐ Collection action or Judgement ☐ No Credit File ☐ Limited credit experience

☐ Poor credit performance with us ☐ Delinquent past or present credit obligations with others

☐ Garnishment or attachment ☐ Foreclosure of repossession ☐ Bankruptcy

☐ Number of recent inquiries on credit report ☐ Value or type of collateral not sufficient

☐ Other: _____

Upload this page to the file and

If the file has been underwritten...	If the file has not been underwritten....
Move all PTC and Compliance conditions to recycle bin	Move any documents not sorted to recycle bin. 1003 should be complete!
Upload denial form and supporting documentation to Prior to Conditions	Upload any supporting documentation for the reason. Make sure Credit and AUS are uploaded
Final the file back for underwriting to complete the denial!	Upload the denial form and email denials@flanaganstatebank.com

Denial form and supporting documentation should be uploaded in Imageflow to "Loan Officer Denial Information Folder"

Definitions of Reasons

- **Credit application incomplete.** This reason should be used when a creditor denies an application due to incompleteness. This reason should not be used if a creditor provides a notice of incomplete application in accordance with Regulation B (as this would not be a denial requiring an adverse action notice).
- **Insufficient number of credit references provided.** This reason should be used when a creditor has requested credit references beyond the history found in a credit report (such as when the applicant does not have an established credit file or credit score), and the applicant was not able to supply sufficient credit references according to the financial institutions defined standards (such as a minimum number of credit references).
- **Unacceptable type of credit references provided.** This reason should be used when a creditor has requested credit references beyond the history found in a credit report (such as when the applicant does not have an established credit file or credit score), and the applicant provided credit references that were not acceptable according to the financial institutions defined standards.
- **Unable to verify credit references.** This reason should be used when a creditor has requested credit references beyond the history found in a credit report (such as when the applicant does not have an established credit file or credit score), and the creditor is unable to verify the references provided by the applicant. The denied file should document the creditors attempts to verify credit references.
- **Temporary or irregular employment.** This reason should be used only if the financial institution has a defined policy regarding acceptable temporary or irregular employment, and the borrower's employment history does not meet the definition of acceptable temporary or irregular employment.
- **Unable to verify employment.** This reason should be used when a creditor regularly verifies employment and is unable to verify the employment of an applicant after a verification attempt was made. The denied file should document the creditors attempts to verify employment.
- **Length of employment.** This reason should only be used when a creditor has a defined minimum length of employment and the applicant's length of employment does not meet the minimum length. The denied file should document the applicant's length of employment and the bank's established minimum length of employment.
- **Income insufficient for amount of credit requested.** This reason should be used when an applicant's proposed debt-to-income ratio exceeds the financial institution's maximum DTI ratio *after* the proposed payment is added into the DTI calculation. A corresponding DTI should be retained in the denied file.
- **Excessive obligations in relation to income.** This reason should be used when an applicant's current debt-to-income ratio exceeds the financial institution's maximum DTI ratio *before* the proposed payment is added into the DTI calculation. A corresponding DTI should be retained in the denied file.
- **Unable to verify income.** This adverse action reason should only be used when a financial institution makes an attempt to verify the income of the applicant but is unable to do so. The denied file should document the attempts that were made to verify income.
- **Length of residence.** This reason should be used when the applicant's length of residence does not comply with the financial institution's established minimum length of residence. (Note: this reason should only be used if a bank has a consistently applied minimum length of residence and the borrower does not meet the minimum requirements.)
- **Temporary residence.** This reason should be used when a creditor knows that the current residence of the applicant is not a permanent residence.
- **Unable to verify residence.** This reason should be used when a creditor has attempted, but is unable to verify the residence of the applicant. The denied file should document the creditors attempts to verify residency.
- **No credit file.** This reason should be used when a creditor requests a credit report on an applicant, but the applicant does not have (or the creditor is unable to locate) an established credit file.
- **Limited credit experience.** This reason should be used when an applicant has a credit history/credit report but lacks a sufficient number of tradelines to satisfy the bank's standards. This reason can be used when reviewing either a credit report or credit references provided by the applicant.
- **Poor credit performance with us.** This reason should be used when the applicant has a history of poor credit performance with our financial institution. The denied file should provide evidence of late payments with us and other evidence of poor credit performance with us (such as charge offs).

- **Delinquent past or present credit obligations with others.** This reason should be used when the credit report reflects late payments to creditors other than our financial institution and those delinquencies do not satisfy our credit standards.
- **Collection action or judgment.** This reason should be used only when the credit report indicates a collection action or judgment that does not satisfy our credit standards.
- **Garnishment or attachment.** This reason should only be used when the credit report indicates a garnishment or attachment that does not satisfy our credit standards.
- **Foreclosure or repossession.** This reason should only be used when the credit report indicates a foreclosure or repossession that does not satisfy our credit standards.
- **Bankruptcy.** This reason should be used when the credit report reflects a bankruptcy that does not satisfy our credit standards.
- **Number of recent inquiries on credit bureau report.** This reason should only be used when the number of recent credit inquiries exceeds the financial institution's established maximum number of credit inquiries.
- **Value or type of collateral not sufficient.** This reason should be used when the collateral does not meet underwriting standards, such as when an appraised value comes back lower than expected.
- **Other, specify: ____.** This reason should generally not be utilized but can be used only with the approval of the Sr. Lender or used only when the financial institution has an approved list of "other" reasons and the applicable reason is found on that list.



Checklist for New Construction Loan

When completing a new construction property there are certain requirements that must be met for FHA, VA and USDA. This checklist will advise on the basic requirements needed for each loan type.

New Construction is defined as a property either stick built or manufactured home that is built or placed within the most recent 12 months. Occupancy does not negate the need for the new construction documentation.

It is important to note that if the area the property is in does not issue Certificate of Occupancy status, FSB requires on the letterhead of the County or Authorizing Department of the County a statement to this effect and it must be signed/dated by a member of the Department confirming this information.

FHA Requirements - this section has been updated to reflect the October 2020 updates

FHA follows Handbook 4000.1 specifications for New Construction requirements. This section will summarize what is needed to meet HUD guidelines. For the full reading of the requirements, please visit

https://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsggh

For max financing, the following requirements are needed:

- Builder's Certification of Plans, Specifications and Site (Form HUD-92541)
- Builder's One Year Warranty (Form HUD-92544)
- Wood Infestation Report (Form NPCA 99a and 99b)
- Local Health Authority well water analysis and/or septic report, where applicable
- Appraisal that is "as is". If the appraisal is "subject to" completion, the home may be considered "under construction" and additional items may be required.
- Certificate of Occupancy or HUD Form 92051
 - If a Certificate of Occupancy is not issued by the local authority, the following will be required:
 - A Final Inspection on HUD form 92051 completed by a Licensed or Certified Home Inspector that satisfies the HUD requirement for RCI or CI certification. (Residential Combination Inspector or Combination Inspector) OR

- A third party who is a registered architect or structural engineer and has met the licensing and bonding requirements of the state in which the property is located in.
 - When a licensed architect or structural engineer is used to perform this inspection, underwriting must be provided proof of their licensing and bond under the applicable state and local laws for the file

**If Manufactured Home – Foundation Inspection/Engineers Report is required

***Reminder – manufactured homes in a flood zone are not eligible for financing with FSB

VA Requirements

VA requirements can be found in the VA Handbook. Ch 10 outlines the details of New Construction. This is a summary of the requirements needed for new construction properties. To review the full guidelines, please view the handbook following this link: http://benefits.va.gov/warms/pam26_7.asp. Requirements may be adjusted accordingly to meet the requirements of the NOV at the time of approval.

Property is New Construction – preferred by FSB

If the property is considered new construction by VA's definition: the property must be fully completed or completed except for customer preference items (such as, interior wall finishes, floor covering, appliances, fixtures and equipment, etc.) In addition, the property was completed less than one year and never owner-occupied. An "as is" appraisal is preferred, however the underwriter will review a "subject to" appraisal to determine if the remaining repairs needed to meet MPR will allow the property to be classified as New Construction. If classified as New Construction, the following will be needed:

- VA Form 26-1859 – 1-year Warranty of Completion of Construction
- Certificate of Occupancy (if available)
- VA Not Inspected Acknowledgement for New Construction form
- VA Builder ID – please reference the "*How To Obtain a VA Builder ID*" instructions!
This should be completed prior to the ordering of the appraisal

Timing of the application and appraisal is crucial for this option. To avoid the need for a 10 year builder warranty, the timing should wait until the home is fully complete or with 5% left if the weather does not allow for the remaining items to be finished.

Property is Proposed/Under Construction or Existing Construction

If a home is starting construction or currently under construction at the time of application as evidenced by the appraisal, then a more detailed list of documentation is required. In these situations, the appraisal will be marked “subject to” plans & specs or “subject to” and the required MPR’s will show the home still needs a majority of the work to be completed. The following will be needed:

When the property is appraised as...	...then...
existing construction	no warranty is required.
proposed or under construction with a full complement of VA inspections	only a 1 year builder’s warranty is required.
proposed or under construction (with only a final VA inspection and local inspections are accepted in lieu of VA first and second stage inspections per Section 14.03)	only a 1 year builder’s warranty is required.
proposed or under construction (with only a final VA inspection and local inspections are not accepted in lieu of VA first and second stage inspections per Section 14.03)	<ul style="list-style-type: none"> • both a 1 year builder’s warranty, and • a 10 year insured protection plan are required.

Each set of proposed construction exhibits must include

- specifications on VA Form 26-1852, Description of Materials, signed and dated by the builder in all cases and by the veteran when one is under contract in an individual case processed as “proposed or under construction”. Other specification formats are also acceptable, provided they are signed and dated by the builder and veteran as described above and are sufficiently detailed for VA appraisal and compliance inspection purposes.
- plot plan which includes the location of the well/septic systems, if applicable.
- all exterior building elevations.
- foundation or basement plan.
- plan of all floors.
- sectional wall details.
- a certification signed and dated by a technically qualified and properly identified individual (such as, builder, architect, engineer, etc.) which states, “I certify that the construction exhibits for (identification of the property by house type, lot, block, subdivision name, etc.) meet all local code requirements and are in substantial conformity with VA Minimum Property Requirements, including the energy conservation standards of the 1992 Council of American Building Officials’ Model Energy Code and the requirement for lead-free water piping.” VA will accept HUD Form 92541, Builder’s Certification of Plans, Specifications and Site, in lieu of this certification.

Note: In most cases for HUD Form 92541 to be acceptable, it must have the identifying information at the top completed, as well as Items 2 and 4 **or** Items 5, 6, 9, 10, 12 and 13.

****If Manufactured Home – Foundation Inspection/Engineers Report is required**

***Reminder – manufactured homes in a flood zone are not eligible for financing with FSB

USDA Requirements

To satisfy USDA requirements for new homes (stick built and manufactured) the following requirements must be met:

- Certification from a qualified individual or organization that the reviewed plans and specs comply with applicable development standards (meets local building codes). Qualified individuals or organizations able to provide this certification:
 - Licensed architects
 - Professional engineers
 - Plan reviewers certified by a national model code organization listed in 7 CFR 1924, Part A, in Exhibit E
 - Local building officials authorized to review and approve building plans and specifications, and
 - National codes organizations
- Building Permit
- Certificate of Occupancy
- Final Inspection
- 10-year insured builder warranty plan acceptable to Rural Development
 - Or, when three construction inspections are performed, a final inspection plus a 1-year insured builder warranty plan acceptable to RD is allowed in lieu of the 10-year builder warranty plan.
- Evidence of thermal standards meet or exceed International Energy Conservation Code (IECC) in effect at the time of construction.
 - The builder may certify confirmation with IECC standards
 - Or, a qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards

Manufactured Homes

- Manufactured homes must be less than 12 months old and never occupied. They must include the site.
- To be an eligible unit, the new unit must have a floor area of not less than 400 square feet
- The unit must meet the Federal Manufactured Home Construction and Safety Standards (FMHCSS)
- The unit must be placed on permanent foundation built to FHA guidelines in effect at the time of certification
- A foundation certification is always required
- The home must be classified and taxed as real property

- The unit may never have been installed or occupied on any other site or location. The unit may only be moved from the manufacturer's or dealer's lot to the site on which the unit will be guaranteed.

**If Manufactured Home – Foundation Inspection/Engineers Report is required

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For further details regarding financing a manufactured home with Rural Development, please see Chapter 13 in the USDA Handbook.