

Flanagan State Bank App+5 Broker Program

Robert Anderson, SVP Mortgage Division





Training Agenda

- ❑ Let's talk about you!
- ❑ Why FSB?
- ❑ Introducing your FSB Team
- ❑ App+5 Compliance
- ❑ Rates
- ❑ Starting Prequals and Loans
- ❑ FHA & VA & USDA Highlights
- ❑ Final Thoughts



Let's Talk About You!

A few important questions:

- What is your LOS system?
- Does your LOS system allow for an export of a FNMA 3.4 file?
- Do you currently sell loans on the secondary market?
- Do you retain servicing on any loans?

Why App+5?

There are so many reasons why the App+5 Program is important to your bank:

- Customer Attraction and Retention
- Added Non-Interest/Fee Income
- Access to a full range of Mortgage Options:
 - Conventional
 - Government (FHA, RD, VA)
 - Investment Properties
- No buyback responsibility
- No effect on regulatory reporting
- No effect on loan loss reserves

App+5 is a RESPA compliant program where your bank is paid for the service of taking a residential mortgage loan application and performing at least five other steps in the loan process. While you continue to maintain contact with your customer, the loan is closed in Flanagan State Bank's name through a brokerage process.

Why FSB?

You're going to love working with us!

- Quick Turn Times - turn times are updated daily on our website www.fsbtpo.com
- Competitive rates
- A team dedicated to your business!
- Training available when you need it
- Easy to use LOS - Mortgagebot
- Flanagan State Bank has been in business since 1913. We understand your business because you are what makes us who we are.
- Quick chain of command to the top! If you need this, it is a short list to get to the Management Team
- We do not market to YOUR customers! It is in our agreement, and we mean what we say. Any customers who call us in the future to do a loan are referred back to the institution they originated from.

Meet Your FSB Team!

Your Account Executive - TBD

- Your Account Executive will be listed in your Account Approval Letter.

Mortgage Support Team - Karley Stover - Team Manager

- Mortgage Support will be your go to for any questions, S/E income reviews, Pre-qual reviews, and system questions. You name it, they can help with it!

Operations Manager - Josh Heinrich / Chris Langel

- On occasion, you may hear from our Ops Manager, Josh, or his assistant, Chris. They manage our Process Flow and Closings.

Underwriting Manager - Kristen Snethen

- On occasion, you may hear from our Underwriting Manager, Kristen.

Lock Desk Manager - Dave Weber

- Dave oversees our Secondary Marketing Department and he or Mandy will be on the other end of any emails sent from the Lock Desk.

Funding and Post Closing Department - Rebecca Moorehead

- Becky runs our Funding Team and the Post-Closing Department. If we our investors need anything after the closing, Becky's team will be in contact with the Loan Officer.

Your Account Executive

A valuable resource for your team!

All our AEs have many years of originating experience within the mortgage industry. They know what it is like to be a busy LO!

- Always available for a phone call.
- Will answer your product and process questions.
- Will assist in the loan process as needed.



Your Partner Loan Officer

The addition your team needs to succeed!

Our App+ 5 Program was designed for the busy Loan Officer. Your Partner LO will be there with you through every step of the process. Specifically, your Partner LO will:

- Send you daily rate sheets
- Provide written pre-qualifications
- Setup loan files in FSB's LOS
- Prepare written S/E income analysis worksheets
- Prepare rental income worksheets
- Lock loans
- Run AUS
- Work in VA Portal
- Provide status updates
- Assist with the loan submission process
- Work directly with FSB processing team
- Provide insight on underwriting requirements
- Offer training on various topics
- Answer scenario and guideline questions.
- ...and more!

These are just some of what we help with! Your Partner LO will be the missing link your team needs to provide the best service available to your customers.

App+5 Compliance - RESPA Section 8

RESPA Section 8

This section of RESPA prohibits kickbacks and unearned fees related to settlement services involving a mortgage.

This section of RESPA does allow payment by a lender (like FSB) for services actually performed in the origination, processing, or funding of a loan.

HUD Rules

An entity may be paid as a mortgage broker on a transaction if they take the initial application plus complete at least five of the listed services normally performed during the origination of the loan (see checklist on next slide). At least one of the services must be of a non-counseling nature.

Why is it called App+5?

The originating broker must complete the initial application, plus at least 5 other items from the App+5 checklist in order to earn compensation compliant with RESPA 8.

It is very important to keep record of the completion of these items.

App+5 Checklist

What is the App+5 Checklist?

The form details which items (in addition to taking the initial application) the originating broker has completed in order to earn compensation.

Why does FSB need the App+5 Checklist?

FSB must be able to prove that an originating broker completed the initial application plus at least 5 other items from this list to maintain compliance with RESPA Section 8. The FDIC checks for this documentation during exams.

When do I complete the App+5 Checklist?

You will complete, sign, and date this checklist at the end of the loan process, prior to closing.



App+5 Checklist

Originating Bank must perform counseling, education and consulting services in order to be compensated. Originating Bank must take the application and complete at least 5 additional items in the checklist below in order to be paid. At least one of the services must be of a non-counseling nature (items noted with asterisk are non-counseling services).

1. ___ Analyzing the prospect's income and debt and pre-qualifying the prospect to determine the maximum mortgage that the prospect can afford.
2. ___ Educating the prospect in the home buying and financing process, advising the prospect about the different types of loan products available, and demonstrating how closing costs and monthly payments could vary under each product.
3. ___ Collecting financial information (tax returns, bank statements, etc.) and other related documents that are part of the application process.
4. ___ Initiating / ordering VOE (verifications of employment) and VODs (verifications of deposits).*
5. ___ Initiating / ordering requests for mortgage and other loan verifications.*
6. ___ Initiating / ordering appraisals.*
7. ___ Initiating / ordering inspections or engineering reports.*
8. ___ Providing disclosures (Loan Estimate, Application Disclosures, etc.) to prospect.*
9. ___ Assisting the prospect in understanding and clearing credit problems.
10. ___ Maintaining regular contact with the prospect, realtors, Lender, between application and closing to apprise them of the status of the application and gather any additional information as needed.
11. ___ Ordering legal documents.*
12. ___ Determining whether the property is located in a flood zone or ordering such service.*
13. ___ Participating in the loan closing.*

I hereby certify that the above checked requirements have been met by the originating bank.

Originating Lender LO Certification

Date

App+5 Loan Disclosure

What is the App+5 Loan Disclosure?

The disclosure outlines for borrower(s) who the originating broker is, who the lender will be (FSB) and explains compensation paid to the broker.

When is the App+5 Loan Disclosure completed?

The App+5 Loan Disclosure should be submitted to FSB along with the Initial Application.



App+5 Loan Disclosure

Notice to Prospective Borrower(s): Read this contract carefully so that you make an informed choice. You are entitled to a copy of this contract. Signing this contract does not obligate you to obtain a mortgage loan, nor does it constitute mortgage loan approval.

The institution you are working with has a working relationship with Flanagan State Bank Mortgage Department. The Banks will be working together to consider your application for a mortgage loan and, if that application is granted, to complete your mortgage loan. Per the current laws regulating mortgages, each institution must complete a certain amount of work on your loan to earn the fees that are charged. The compensation charged will be competitive to what you would normally be charged in your area. The benefit to you is the ability to offer you more loan options for financing your mortgage.

This contract outlines the fees charged by _____ ("Originating Broker") and the services it provides to earn the compensation being charged.

This contract is between:

Name(s) of borrower(s): _____ And _____
_____ Originating Broker
located at _____.

The Lender, Flanagan State Bank, will be authorized by Originating Bank to work directly with you to evaluate your loan application and to complete the loan once the initial steps have been completed by Originating Bank. The Lender has authorized Originating Bank to engage you and advise you about various loan products available to you through the Lender.

Who does Originating Broker represent?

The originating Bank represents you. The originating Bank is your agent and owes you a fiduciary duty. As an agent of Originating Bank, I owe all others a duty of fair and honest dealing. I will strive to ensure you get the best loan terms possible that meet your loan objectives. Originating Bank will charge you a fee for my services but I will not receive any fee for your mortgage loan from the Lender.

What Originating Broker will be paid :

This allows the Originating Bank to charge an origination fee not to exceed 1%. No other fees may be charged by Originating Bank. The fees charged must be reasonable based on the services provided and consistent to meet Equal Credit Opportunity Act regulations.

Originating Broker's total compensation will be (1%) or \$ _____

Application Submission Process

“Old-Fashioned” Option

Email your Partner LO a handwritten application (URLA) along with any other documentation you have received from the borrower.

“Tech-savvy” Option

Email your Partner LO a FNMA Mismo 3.4 file, along with any other documentation you have received from the borrower.

We recommend that you email the application and documents to us in a GLBA compliant (secure) manner.

All applications sent into FSB should be accompanied by:

- A tri-merge credit report
 - Please assist the borrower in understanding their credit and clearing any credit problems. *(Item #9 on App+5 Checklist)*

In addition, you may analyze the prospect’s income and debt and pre-qualify the prospect to determine the maximum mortgage the that prospect can afford *(Item #1 on App+5 Checklist)*

Partner LO Application Review

Within 24 business hours your Partner LO will review the application and accompanying documents. For compliance reasons, we no longer offer direct Mortgagebot logins to App+5 Clients.

Your Partner LO will then:

- Request additional information, if needed.
- Confirm with you all loan products that your customer may be eligible for.
- Provide a written pre-qualification letter.

You will:

- Educate the prospect in the home buying and financing process, advising the prospect about the different types of loan products available, and demonstrating how closing costs and monthly payments could vary under each product. *(Item #2 on App+5 Checklist)*
- Assist the borrower in understanding and clearing credit problems, if not already completed. *(Item #9 on App+5 Checklist)*

Provide the Accepted Contract

Email the purchase contract to your Partner LO within 24 business hours of receipt. Please also advise if the customer would like to wet sign the initial disclosures, otherwise will be sent via email for e-sign.

The Purchase Contract should be accompanied by:

- The App+5 Loan Disclosure, signed by the borrower and you (as the originating broker)
- An updated Initial Application.
- Any new financial information from your borrower. *(Item #3 from App+5 checklist)*
- We encourage you to order and provide a flood determination. *(Item #12 from App+5 Checklist)*

If the borrower will be wet signing documents with you instead of e-signing, this is Item 8 from the App+5 Checklist.

Your Partner LO will then:

- Call you to discuss current pricing/rates for the loan prior to disclosing.
- Disclose the loan with either a lock rate, or with a floating rate to be locked prior to closing.

Ordering Appraisal and Legal Documents

After the signed Initial Disclosures have been submitted to FSB electronically, or you have provided Initial Disclosures wet signed by your borrower, your Partner LO will indicate via email that you may order the appraisal and title commitment.

When ordering an appraisal, you will:

- Determine with your borrower that the time is appropriate for an appraisal to be ordered.
- Fill out FSB's Appraisal Request Form and email it to your Partner LO.

When ordering a title commitment, you will:

- Determine with your borrower that the time is appropriate for a title commitment to be ordered.
- Fill out FSB's Title Request Form and email it to your Partner LO.

Initiating/ordering appraisals is *Item #6 on the App+5 Checklist.*

Initiating/ordering the title commitment is *Item #11 on the App+5 Checklist.*

We recommend you retain copies of these forms for audit purposes.

Maintaining Contact throughout the Process

Once signed disclosures are received and the appraisal and title commitment have been ordered, the loan will move through both our processing and underwriting departments.

Throughout the process, your Partner LO may reach out to you for assistance with the borrower.

If you wish, you may be involved during these phases.

- If retrieving documentation necessary for conditions, please send them to your Partner LO.
- If you maintain regular contact with the prospect, realtors, and lender between application and closing and apprise them of the status of the application, gathering any additional information as needed, this will meet *Item #10 on the App+5 Checklist.*

Closing the Loan

Congratulations, the loan has received a “Clear to Close”!

Your Partner LO will:

- Email you to go over the information needed to schedule and confirm each loan closing.
- Email the borrower(s) that “Clear to Close” status has been received. Go over any “PTF”(prior to funding) conditions that must be brought to closing.
- Relay to the borrowers the final “Cash to Close” figure.
- Provide the initial copy of the Closing Disclosure to you so that you may provide it to your borrower. *(Item #8 from App+5 Checklist)*

If you choose, you may participate in the loan closing*. *(Item #13 from App+5 Checklist)*

*Please note that this will not count toward one of the 5 items due to last minute changes that may occur with loan closing attendance.

Again, we encourage you to maintain proof of all items completed from our App+5 Checklist for audit purposes.



Program Highlights

The Basics of FHA, USDA (RD), and VA Loans



Government Loan Disclaimer

This training is designed to give you an overview of the FHA, USDA, and VA programs. It is to be used to provide guidance and basic information to allow the viewer to understand the flexibility these programs provide. It is not possible to cover all scenarios that these programs have the potential to do. For specific advice on a situation, please contact your Partner LO.

FHA Loans

The most flexible underwriting on the market!

Pros

- Minimum 600 credit score
- Dinged up credit is acceptable
- 96.5% LTV Purchase / 97.75% LTV Refinance
- Lower rates than Conventional
- MI is equal to or sometimes lower than PMI
- Payment is equal to or lower than Conventional
- Up to 55% DTI allowed with A/E AUS
- Non-Occupant Borrowers are allowed
- No cash out adjustment
- Combining a 1st and 2nd mortgage is not considered cash out, unless the 2nd mortgage was used to pull cash out of the property within the most recent 12 months.
- Manual underwriting allowed

Cons

- MI on a 30-year loan with max LTV will remain on for the life of the loan
- If LTV is under 90%, MI will be in place for 11 years
- UFMIP and Monthly MI are required* - every time the FHA program is used
- FHA has loan limits - these are by county and can be checked at <https://entp.hud.gov/idapp/html/hicostlook.cfm>
- Only 1 FHA loan per family - there are a couple of exceptions to this rule
- Minimum Property Requirements (could be seen as a Pro, too)

**UFMIP (Upfront Mortgage Insurance) Premium is 1.75% and Monthly MI is .55%*

FHA Loan Credit Requirements

- 600 Minimum Credit Score
 - 600 - 659 score range has additional Overlays specific to FSB
 - BK for CH 7 must be 2 years old
 - BK for CH 13 - can be currently in a BK or discharged for at least 12 months.
 - Housing payments - If Approve/Eligible received from DU, credit is accepted. If Refer/Eligible, no more housing lates are allowed.
 - Negative credit within the most recent 12 months is not acceptable, unless extenuating circumstances and dependent on what the negative credit is
 - Foreclosure, short sale or deed in lieu must be 3 years past Sheriff's Deed date
 - No open judgments allowed
 - Medical Collections can be disregarded for DTI purposes, but LOX for collections will still be needed
 - LOX always needed for all derogatory credit on the credit report
- FHA is very flexible with the credit criteria. The LO & Processor's role with a file is to maximize the strengths of the file and minimize the weaknesses.
 - This starts with making sure the Underwriter has a clear picture of the entire file. The use of notes to the underwriter to explain the details they might not see or will have further questions about will go a long way to helping gain an approval and keeping conditions low.



FHA Loan Income Requirements

- DTI allowed up to 55% with A/E Findings
 - Manual Underwriting will limit DTI to 31/43
 - Manual Underwriting does allow for higher ratios but will require specific compensating factors to be met
 - Borrowers should have 2 years in the same line of work, but flexibility is allowed if the borrower can show an improvement from job to job or extra training certifications.
 - Job gaps can be acceptable depending on the LOX
 - 1 year of commission, overtime and bonus is allowed if VOE states these will continue, and the income shows as stable in the receipt
 - Self-Employed borrowers must show 2 years tax returns. If the borrower has a >20% decline in income from the previous year, the file will be a manual downgrade. In addition, the most recent year will be used when there is a decline in income from the previous year.
- Income stability is a very HOT topic these days. FHA is going to require proof that the income the borrower receives is stable and enough to meet the ratio requirements.
 - Documenting this is easiest with a VOE and the paystubs & W2's becoming supporting documentation.
 - Self-employed persons will need a 2-year history of self-employment as evidenced through filed tax returns.

FHA Loan Property Requirements

- FHA Case Number must be ordered PRIOR to ordering the appraisal BUT not before the Intent to Proceed is signed by the borrower.
 - Property must meet safety and soundness requirements set by HUD
 - If repairs are needed and the appraisal is “subject to” the required repairs must be noted in the appraisal.
 - Needed repairs must be completed prior to CTC or an Escrow Repair Holdback must be set up. Escrow Repair Holdback agreement can be found at www.fsbtpo.com
 - Water test is required on all private water sources including Shared Well Systems
 - Septic Inspections are only required if the appraiser does not note the septic appears to be in good working order or if the purchase contract requires it.
 - Utilities must be on at time of appraisal inspection, or the appraisal will be marked “subject to” and a Final Inspection will be required
 - Peeling paint is a common repair that is needed! It is very common for our area and will include outbuildings that add value to the appraisal
 - FSB will send the Appraisal to the borrower for Proof of Delivery
- FHA does allow for Escrow Repair Holdbacks to be used. The flip side to this is that while we will hold the funds to complete the repairs and the repairs must be completed within 30 days of closing - these funds may not be financed into the loan on a purchase. FSB does limit the Holdback to only repairs required to meet the HUD guidelines and cannot exceed \$5000. We do require 150% of the bid to be held.
 - All appraisals for FHA must be completed by a HUD approved appraiser. All originating brokers must maintain a roster with FSB of 3 - 5 appraisers for each area and program



The Basics of USDA (RD) Loans

USDA (RD) Loans

The best rural program available!

Pros

- Minimum 600 credit score
- Dinged up credit is acceptable
- 100% LTV for a purchase up to Appraised Value
- 100% LTV for refinance - must be a USDA loan being paid off
- Lower rates than conventional
- Low Monthly MI
- 29/41 ratios - 32/44 with compensating factors and 680 or better score
- Flexible Underwriting
- Manual Underwriting allowed

Cons

- Purchase program only, unless refinancing a USDA loan
- Rural areas only - not available for metro areas
- Income limits
- Minimum Property Requirements (could be seen as a Pro, too)



USDA Loan Credit Requirements

- 600 Minimum Credit Score
- BK for CH 7 must be 3 years old
- BK for CH 13 - can be currently in a BK or discharged for at least 12 months.
- Housing payments - If Approve/Eligible received from GUS, credit is accepted, and nothing further is needed.
- If Refer/Eligible credit must be validated and show at least 2 tradelines must show paid as agreed for 12 months and be active. If no tradelines satisfy this, nontraditional accounts may be used.
- VOR is always needed if current residence and history show as Rent
- Negative credit within the most recent 12 months is not acceptable, unless extenuating circumstances and dependent on what the negative credit is
- Foreclosure, short sale or deed in lieu must be 3 years past Sheriff's Deed date
- No open judgments allowed
- Medical Collections can be disregarded for DTI purposes, but LOX for collections will still be needed
- LOX always needed for all derogatory credit on the credit report

USDA Loan Income Requirements

- DTI allowed up to 29/41
 - Borrowers should have 2 years in the same line of work, but flexibility is allowed if the borrower can show an improvement from job to job or extra training certifications.
 - Job gaps can be acceptable depending on LOX
 - 1 year of commission, overtime and bonus is allowed if VOE states these will continue, and the income shows as stable in the receipt
 - Self-Employed borrowers must show 2 years tax returns. Income will be averaged. If a >20% reduction in income from the previous year, only the most recent year will be used for qualifying income
 - VOE's are required on all employment history for 2 years
- Income stability is a very HOT topic these days. USDA is concerned about Income. Which is why they have the DTI ratio guidance that they have. Most loans will be limited to 29/41. If the GUS findings approve a higher ratio, then the LO will go with the GUS Findings.
 - USDA does not allow for ANY exceptions to DTI. If a borrower has a 680-credit score, it may be possible for the ratios to go to 32/43 if specific compensating factors can be met per USDA's handbook.

USDA (FHA) Loan Property Requirements

- FHA Case Number must be ordered PRIOR to ordering the appraisal BUT not before the Intent to Proceed is signed by the borrower.
 - Property must meet safety and soundness requirements set by HUD
 - If repairs are needed and the appraisal is “subject to” the required repairs must be noted in the appraisal.
 - Needed repairs must be completed prior to CTC or an Escrow Repair Holdback must be set up. Escrow Repair Holdback agreement can be found at www.fsbtppo.com
 - Water test is required on all private water sources including Shared Well Systems
 - Septic Inspections are only required if the appraiser does not note the septic appears to be in good working order or if the purchase contract requires it.
 - Utilities must be on at time of appraisal inspection, or the appraisal will be marked “subject to” and a Final Inspection will be required
 - Peeling paint is a common repair that is needed! It is very common for our area and will include outbuildings that add value to the appraisal
- FSB will send the Appraisal to the borrower for Proof of Delivery
 - USDA follows FHA guidelines for property. The only exception is that the property must be in a USDA eligible area.



The Basics of VA Loans

VA Loans

The most under-utilized program available!

Pros

- Minimum 600 credit score
- Dinged up credit is acceptable
- 100% LTV for a purchase
- 90 - 100% LTV for refinance - based on Credit Score
- Lower rates than conventional
- No monthly MI
- Up to 50% DTI allowed with A/E AUS
- No cash out adjustment
- Flexible Underwriting
- Limited Closing Costs for Borrower/Veteran
- VA Benefit is re-useable
- Manual Underwriting allowed

Cons

- MI on a 30-year loan with max LTV will remain on for the life of the loan
- Refinance Cash Out Loans may not exceed LTV and must include the Funding Fee.
- Funding Fee increases with re-use of benefit
- Only Veterans with valid COE may use this loan
- Residual Income is required
- Minimum Property Requirements (could be seen as a Pro, too)

VA Loan Credit Requirements

- 600 Minimum Credit Score
 - BK for CH 7 must be 2 years old
 - BK for CH 13 - can be currently in a BK or discharged for at least 12 months.
 - Housing payments - If Approve/Eligible received from DU, credit is accepted. If Refer/Eligible no more housing lates are allowed.
 - Negative credit within the most recent 12 months is not acceptable, unless extenuating circumstances and dependent on what the negative credit is
 - Foreclosure, short sale or deed in lieu must be 2 years past Sheriff's Deed date
 - No open judgments allowed
 - Medical Collections can be disregarded for DTI purposes, but LOX for collections will still be needed
 - LOX always needed for all derogatory credit on the credit report
- VA has a unique outlook on the loan benefit. They heavily lean towards if the loan makes sense for the Veteran, it should be done.
 - The role of the LO and Processor is to show underwriting how this makes sense for the borrower and that they are stable in income and credit to limit the risk of default on the loan.

VA Loan Income Requirements

- DTI allowed up to 50% with A/E Findings
 - Manual Underwriting will limit DTI to 41%
 - Manual Underwriting does allow for higher ratios but will require specific compensating factors to be met
 - Borrowers should have 2 years in the same line of work, but flexibility is allowed if the borrower can show an improvement from job to job or extra training certifications.
 - Job gaps can be acceptable depending on LOX
 - 1 year of commission, overtime and bonus is allowed if VOE states these will continue, and the income shows as stable in the receipt
 - Self-Employed borrowers must show 2 years tax returns. Income will be averaged. If a >20% reduction in income from the previous year, only the most recent year will be used for qualifying income
- VA is going to require proof that the income the borrower receives is stable and enough to meet the ratio requirements.
 - Documenting this is easiest with a VOE and the paystubs & W2's becoming supporting documentation.
 - Self-employed persons will need a 2-year history of self-employment as evidenced through filed tax returns.
 - This is very similar to FHA's outlook at this time. The more stable and reliable the income, the better chance for approval.

VA Loan Property Requirements

- The VA LIN (case number) does not need to be ordered prior to underwriting.
- The VA LIN (case number) and appraisal are ordered at the same time. If you are not ready for the appraisal to be ordered - do not order the case number until you are!
- FSB checks for new appraisals in the system every Tuesday and Thursday. These are reviewed within 5 days and an NOV (Notice of Value) issued if there are no corrections needed.
- FSB will send the appraisal and NOV to the borrower for Proof of Delivery.
- The NOV may contain specific requirements. Please review it!
- Minimum Property Requirements similar to other government loan products will apply. Check appraisals for “subject to”.
- Escrow Holdbacks are not something FSB likes to do on VA loans. The lock **MUST** extend through the time of the repair to be completed and funded, which can be costly. These must have management approval to complete.
- Utilities must be on at time of inspection
- Safety and soundness must be met for the property.

Need more Info?

Our Matrices can be found at www.fsbtpo.com under Document Library!

Questions?

Robert Anderson, SVP Mortgage Division

PH: (815) 676-0933

E: randerson@fsbfamily.com

We look forward to working with you!

