

Escrow Accounts for Taxes and Insurance

Escrow accounts are always required on an FHA loan. No exceptions.

Property Taxes

When calculating escrow set up for property taxes, FSB will require certain parameters to insure accuracy.

- All tax amounts are to show on the title commitment or tax certificate.
- Tax amounts must show without excess exemptions applied. If an exemption will be in effect when the borrower takes possession of the home, we must have documentation that the title company will file the exemption at closing. If the title company cannot provide this confirmation, the exemption must be removed and tax calculation showing at the worst-case scenario for escrow set up and DTI calculation.
- For New Construction, the title company must provide an estimate of the property taxes based on the appraised value of the home. A state/county approved calculator for property taxes will be allowed but the calculation must be based on appraised value.

Homeowners Insurance

Homeowners insurance must have the following on the declarations page:

- Property address to match appraisal address exactly
- Deductible to be indicated on dec page – Maximum of the lower of 5% of coverage of \$5000
- Borrowers' names to match 1003 and be spelled correctly
- Mortgagee Clause to read exactly:
Flanagan State Bank

ISAOA
333 Chicago Road
PO Box 302
Paw Paw, IL 61353

- Loan number to be on policy
- Dwelling coverage to be indicated. Must cover loan amount or meet replacement cost coverage per the HOI worksheet.
- Effective date and expiration date to be on or before closing date
- Must show policy is effective for 1 year if a purchase
- If a refinance and policy will expire before first payment is made, FSB will need proof of what the new premium will be upon renewal
- Must have invoice or paid receipt for premium in file prior to closing
- Condo must have HO-6 insurance to cover 20% of appraised value
- Condo insurance must show unit owner name and unit. Must have \$1,000,000 in building coverage and liability coverage

Coverage must be bound prior to closing. A quote can be used for initial underwriting but will not be accepted for final approval.

Flood Insurance

Dwelling to cover loan amount. Unless loan amount is over \$250,000. \$250,000 is the max FEMA allows. FHA requires total estimated cost new on cost approach section of appraisal.

- Flood zone to be indicated and must match flood zone on appraisal and flood cert.
- Unless a higher maximum amount is required by state law, the maximum allowable deductible is \$5000
- All the other homeowner's insurance requirements apply to flood insurance as well, see above.

