



**Letters of Explanation Guidance**

FSB will require LOX's for derogatory credit as follows:

For Manually Underwritten files: All derogatory credit for the most recent 24 months on the report and any public records or major derogatory events (such as foreclosure) will need to be addressed. FSB is looking for a reasonable explanation that shows the situation was out of the borrower's control, how the borrower resolved the situation and that the situation was resolved and did not occur again. It must show that the reason was not due to financial mismanagement. Financial Mismanagement will not allow for a loan approval.

For loans with an AUS approval: Only major items and public records will require an LOX to be completed. Foreclosure, short sale and deed in lieu of are considered major items.

LOX's should be included in the original submission to assist the underwriter with the approval/denial decision.

FSB will require a derogatory credit letter to accompany each file that explains all derogatory credit, regardless of the age, that shows on the credit report.