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Ann. SEL-2010-05: Underwriting Borrowers with a Prior Preforeclosure Sale or Deed-in-Lieu of Foreclosure (04/14/10)

To support overall market stability and reinforce the importance of borrowers working with their servicers when they have difficulty repaying their debt, Fannie Mae is updating several policies regarding the future eligibility of borrowers to obtain a new mortgage loan after experiencing a preforeclosure event (preforeclosure sale, short sale, or deed-in-lieu of foreclosure). The "waiting period" – the amount of time that must elapse after the preforeclosure event – is changing and may be dependent on the LTV ratio for the transaction and whether extenuating circumstances contributed to the borrower's financial hardship (for example, loss of employment). In addition, Fannie Mae is updating the requirements for determining that borrowers have re-established their credit after a significant derogatory credit event.



Note: The terms "short sale" and "preforeclosure sale" are both referenced in this Announcement and have the same meaning – the sale of a property in lieu of a foreclosure, resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer.

This Announcement describes the policy changes in detail and identifies the specific *Selling Guide* topics that will be updated on April 30, 2010, when a new version of the *Selling Guide* will be released.

Waiting Period After a Preforeclosure Sale, Short Sale, or Deed-in-Lieu of Foreclosure

Fannie Mae is changing the required waiting period for a borrower to be eligible for a mortgage loan after a preforeclosure event. The waiting period commences on the completion date of the preforeclosure event, and may vary based on the maximum allowable LTV, CLTV, and HCLTV ratios (referred to herein as LTV ratios) and occupancy of the property. These new policies will be updated in the *Selling Guide*, B3-5.3-07, Derogatory Credit Information, and in B3-5.3-10, DU Credit Report Analysis. The following table describes the waiting period policy changes:

Preforeclosure Event	Current Waiting Period Requirements	New Waiting Period Requirements ⁽¹⁾
Deed-in-Lieu of Foreclosure	4 years Additional requirements apply after 4 years up to 7 years	<ul style="list-style-type: none"> • 2 years – 80% maximum LTV ratios • 4 years – 90% maximum LTV ratios • 7 years – LTV ratios per the Eligibility Matrix
Preforeclosure Sale	2 years	
Short Sale	No policy currently exists specific to short sales	
Exceptions to Waiting Period for Extenuating Circumstances		
Preforeclosure Event	Current Waiting Period Requirements	New Waiting Period Requirements ⁽¹⁾
Deed-in-Lieu of Foreclosure	2 years Additional requirements apply after 2 years up to 7 years	2 years – 90% maximum LTV ratios
Preforeclosure Sale	No exceptions are permitted to the 2-year waiting period	
Short Sale	No policy currently exists specific to short sales	

⁽¹⁾ The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the Eligibility Matrix.

Fannie Mae's policies for extenuating circumstances remain unchanged and are fully described in the *Selling Guide*, B3-5.3-08, Extenuating Circumstances for Derogatory Credit.

Bankruptcies

The multiple bankruptcy policy is being clarified to state that two or more borrowers with individual bankruptcies are not cumulative. For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy, this is not considered a multiple bankruptcy. The current waiting periods for bankruptcies remain unchanged.

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DU will be updated in June to reflect the deed-in-lieu of foreclosure policy changes outlined above. Because preforeclosure and short sales cannot be identified in the credit report data by DU at this time, DU will not be updated in June to include these policies. However, effective for loan applications dated on or after July 1, 2010, lenders will be required to determine during their review of the credit report if there is a preforeclosure or

short sale and must manually apply the new policies to all loan casefiles underwritten through DU.

See the *Selling Guide*, B3-5.2-03, Accuracy of Credit Information in a Credit Report, for Fannie Mae's current policies regarding the lender's responsibility for reviewing the credit report.

Effective Date

This policy is effective for manually underwritten mortgage loans with application dates beginning July 1, 2010; for DU loan casefiles see above.

Requirements for Re-establishing Credit

The requirements for borrowers to re-establish their credit after a significant derogatory event are also being updated. Fannie Mae is replacing the requirements related to the number of credit references and applicable payment histories with the waiting periods and other criteria. The new policies described below will be located in B3-5.3-07 (moving from B3-5.3-9, Requirements for a Re-established Credit History).

Requirements for Re-establishing Credit

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, or preforeclosure or short sale, the borrower's credit will be considered re-established if all of the following are met:

- The waiting period and the related requirements are met.
- The loan receives a recommendation from DU that is acceptable for delivery to Fannie Mae or, if manually underwritten, meets the minimum credit score requirements based on the parameters of the loan and the established eligibility requirements.
- The borrower has traditional credit as outlined in the *Selling Guide*, B3-5.3, Traditional Credit History. Nontraditional credit or "thin files" are not acceptable.

Effective Date

This policy is effective immediately.

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Lenders who have questions about this Announcement should contact their Customer Account Team.

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