

What Homeowners Need to Know About Fannie Mae's 'Deed for Lease'

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The nation's mortgage ownership giants, Fannie Mae and Freddie Mac, are offering welcome relief this year to homeowners who cannot pay their mortgage debt. For months, both companies have leased back homes to homeowners who have been foreclosed on. Now, a new program from Fannie Mae – released in November – offers one-year leases to homeowners who cannot pay their mortgages, but who do not qualify for loan modifications.

Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation), government-sponsored enterprises created by Congress to stabilize U.S. housing markets and make homeownership more affordable, purchase loans after home buyers have completed the purchase process.

Fannie Mae's new "Deed for Lease" program, announced Nov. 5, will assist homeowners who cannot afford their mortgage payments, but who still want to stay in their homes. The program is named after "deed in lieu" transactions, in which homeowners return their deed to the lender in lieu of foreclosure. Basically, in those cases, homeowners give the house back, and in return, the lender does not officially foreclose. But in this case, homeowners give the lender their mortgage deed in exchange for a lease so that they can continue living in their home.

Here is a quick overview of the program:

- 1) Qualifications for Deed for Lease: To qualify for the Deed for Lease program, homeowners must:
 - Have a loan owned by Fannie Mae (check <http://loanlookup.fanniemae.com/loanlookup/>).
 - Be delinquent in their payments.
 - Have applied, but not qualified, for a loan modification.
 - Live in the home as their primary residence.
 - Not have any subordinate liens on the property.
 - Demonstrate that they can afford market-rate rents by showing a property manager that market rents are no more than 31 percent of their gross income.
 - Complete a deed in lieu of foreclosure, voluntarily transferring the deed on the house to Fannie Mae.

- 2) How approval works: Once a homeowner has applied, the property manager will contact the homeowner within three business days. The property manager will view the property to be sure it is in good condition and that the property and residents comply with legal and any other requirements. The property manager needs 10 days to process the application. When an application is approved, the property manager will set rental rates, establish any lease conditions, and approve the lease based on applicable laws and requirements and market conditions.

- 3) Advantages to homeowners: Compared to a foreclosure, the "Deed for Lease" program has less negative impact on consumers' credit scores, avoids flooding the market with foreclosed homes, and is more likely to help protect homes from the vandalism that can occur when homes are abandoned. Additionally, in some areas, rents are much less than mortgage payments. For example, in Orange County, Calif., a homeowner who has been paying more than \$2,400 per month on a condo purchased at \$450,000 with 20 percent down could pay just about \$1,300 per month in rent.

4) Good news for tenants: In cases where homeowners of rental properties face foreclosure, their rental tenants can wind up being evicted. The Deed for Lease program helps out because it also can apply to tenants of mortgage borrowers in this situation. If the home is sold subsequently, the lease is transferred to the new buyer.

5) Freddie Mac's REO Rental Program: Freddie Mac offers a related program for tenants and homeowners whose properties have already been foreclosed. Since March 2009, residents of foreclosed properties have had the option to enter into a month-to-month lease while the property is listed for sale.

Of course, the ideal situation is that homeowners will be able to pay off their mortgage debt as scheduled, maintaining good credit and eventually owning their home outright. However, in today's economy, that ideal situation is not always possible. For qualifying homeowners, the Deed-for-Lease program can be an excellent option to provide temporary relief, and perhaps to regain a hold on the American dream once the economy has stabilized.