

New Fannie Mae Rules Aid Former Homeowners

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Good news for those working their way back to home ownership. In an effort to aid in the recovery of the housing market, Fannie Mae has changed its loan rules for homeowners that went through a short sale or gave their deed back to the bank before foreclosure. The U.S. housing market has so far weathered six million foreclosures in the past three years, with another three million expected this year.

The government-sponsored public company has relaxed its loan guidelines that prevented applicants in these situations from obtaining a mortgage for extended periods of time. After meeting certain requirements, the wait for a new loan will be cut to two years from its current four-year wait.

For some former owners, this is the chance they've been waiting for.

Beginning with applications submitted after July 1 of this year, troubled homeowners that can present a 20 percent down payment will be eligible for loans within two years of a short sale or giving the deed back to the bank. If a borrower can only put down 10 percent, the wait time will still be four years; and if less than 10 percent, it could be longer. However, there is even some good news here. If borrowers can show there were "extenuating circumstances" in their situation, such as medical bills or layoff, they may qualify for a loan with 10 percent down in two years.

The other requirement, seen as more challenging, rests with credit rehabilitation. Fannie Mae expects borrowers to have rehabilitated their credit enough to gain passing grades from the companies automated underwriting system. Fannie Mae also states that they will not consider applicants with "non-traditional" or "thin" credit.

Many see this effort as an attempt to reward troubled homeowners who work with banks instead of just walking away from their property. However, with two years to come up with 20 percent and the need to revamp credit, it's questionable how many people will be able to take advantage of this program.

Fannie Mae and Freddie Mac were bailed out by the U.S. taxpayers in September 2008 to the tune of billions of dollars; Americans now own 80 percent of the lenders. Initially, the lenders had been limited in their bailout monies, but on Christmas Eve 2009, this was changed; the amount they can get for a bailout is unlimited. At the same time it was announced executives of the giants would receive \$42 million for 2009 performance bonuses.