

# Fannie Mae Gets Tough on 'Strategic' Mortgage Defaults

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Borrowers who walk away from mortgages they can afford to pay — making "strategic defaults" — are running increasing risks that they'll be penalized for doing so.

Starting in October, [Fannie Mae](#) says, strategic defaulters will be disqualified for new Fannie Mae-backed loans for seven years after their foreclosures. Fannie also says it will go to court where it can to recoup outstanding mortgage debt from borrowers who strategically default.

Under a bill that's passed the House and awaits Senate action, the [Federal Housing Administration](#) would be barred from insuring mortgages for those who previously ditched a mortgage they had the ability to pay.

*ECONOMY: Comparisons to the Great Depression keep popping up*

Get-tough policies are forming at the same time that about a quarter of mortgage borrowers owe more than their homes are worth.

Fannie Mae buys about 40% of all mortgages and packages them for resale to investors. The [FHA](#) insures about 30% of home mortgages.

[Freddie Mac](#), which also buys mortgages, says it is examining Fannie Mae's policy.

To determine if a borrower is in default, Fannie examines whether the homeowner still has access to credit and is paying that debt and others.

Cracking down on strategic defaulters is controversial. Some lenders say it is necessary to stem the tide of homeowners shirking their obligations.

"We need to start treating bad behavior with serious and measureable consequences so that we can get this nation back on its feet," says Daniel Smith, vice president of mortgage banking at First Place Bank in Livonia, Mich. "Washington needs to come up with a uniform law on this issue."

Others say homeowners who may appear guilty of strategically defaulting really can't afford to make mortgage payments.

"It seems like an overreaction," says Howard Banker, a founder of Fair Mortgage Collaborative, a consumer education non-profit in New York. "If you do default, it goes into foreclosure, and that's already very damaging to your credit."

Other policies may be more effective than penalizing strategic defaulters, says Mark Zandi, chief economist of Moody's Analytics. Changing bankruptcy laws to allow bankruptcy judges to reduce debtors' mortgages is an example, he says.

"I'm not a big fan of using the stick to get people to stay in their homes. There are instances where it makes no financial sense for them to stay in their homes," Zandi says. "And how do you know, really, if someone is strategically defaulting?"

Two out of five homeowners say they would consider walking away from their mortgages if their homes were worth less than what they owed, according to a survey by Trulia and RealtyTrac.