

Impact of Adverse Credit Events on the Ability of Consumers to Purchase Another Home

July 11, 2010



National Association of REALTORS® Government Affairs Division
500 New Jersey Avenue, NW, Washington DC, 20001

	FHAⁱ	Fannie Maeⁱⁱ	Freddie Macⁱⁱⁱ
Short sale	<p>No wait if not in default.</p> <p>3 year wait if in default at closing of short sale. The lender may reduce the waiting period if extenuating circumstances are documented and the borrower has re-established good credit.</p>	<p>2 year wait if the borrower puts 20% or more down; 4 year wait if the borrower puts between 10 and 20% down; 7 year wait if the borrower puts less than 10% down. (See Fannie Mae's Eligibility Matrix on www.efanniemae.com for specific product LTV ratios.) The wait time is 2 years if extenuating circumstances are documented and the borrower puts 10% or more down.</p>	<p>4 year wait; 2 year wait if extenuating circumstances are documented.</p>
Deed-in-lieu of foreclosure	<p>3 year wait. The lender may reduce the waiting period if extenuating circumstances are documented and the borrower has re-established good credit. Extenuating circumstances include serious illness or death of a wage earner, but do not include an inability to sell a house due to job transfer or relocation to another area.</p>	<p>Same as Fannie's short sale policy.</p>	<p>Same as Freddie's short sale policy.</p>



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Foreclosure	Same as FHA's deed-in-lieu of foreclosure policy.	5 year wait from the completed foreclosure sale date; 3 year wait if extenuating circumstances are documented. Additional underwriting requirements apply for 2 years after the 5 or 3 year waiting period. There is a 7 year wait required for a second home, investment opportunity, or cash-out refinancing.	5 year wait from the completed foreclosure sale date; 3 year wait if extenuating circumstances are documented.

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Bankruptcy	<p><u>Chapter 7 (liquidation)</u> – 2 year wait from the discharge date of the bankruptcy; 1-2 year wait if extenuating circumstances are documented and other requirements are met.</p> <p><u>Chapter 13 (repayment plan)</u> – 1 year wait from the discharge date of the bankruptcy, commencing with the start of the pay-out period. The borrower must have made all of the payments for a minimum of 1 year in a satisfactory manner (as verified with the courts), and the court trustee must approve in writing.</p> <p>Chapter 11 is N/A since FHA is not available for investors.</p>	<p><u>Chapter 7 or Chapter 11 (reorganization, usually involving corporations or partnerships)</u> – 4 year wait from the discharge or dismissal date of the bankruptcy; 2 year wait from the discharge or dismissal date may be accepted if extenuating circumstances are documented.</p> <p><u>Chapter 13</u> – 2 year wait from the discharge date or 4 years from the dismissal date is required. A 2 year wait for a dismissal is permitted if extenuating circumstances are documented.</p> <p><u>Multiple bankruptcies^{iv}</u> – 5 year wait if the borrower has filed more than one bankruptcy petition in the past 7 years, measured from the most recent dismissal or discharge date. A 3 year waiting period is permitted if extenuating circumstances are documented, and is measured from the most recent bankruptcy discharge or dismissal date</p>	<p><u>Chapter 7 or Chapter 11</u> – Same as Fannie’s bankruptcy policy.</p> <p><u>Chapter 13</u> – 2 year wait from the discharge date of the bankruptcy; 2 year wait from the discharge or dismissal date of the bankruptcy if extenuating circumstances are documented.</p> <p><u>Multiple bankruptcies</u> – Same as Fannie’s bankruptcy policy for multiple bankruptcies.</p>

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ⁱ Source: FHA Handbook 4155.1, Chapter 4.A.2, 3/29/10.

ⁱⁱ Source: Fannie Mae Selling Guide, B3-5.3-07, 4/30/10. The short sale and DIL policies are new and take effect 7/1/10.

ⁱⁱⁱ Source: Freddie Mac Selling Guide, Chapter 37.7, 7/10/09.

^{iv} The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies. For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy this is not considered a multiple bankruptcy. The most recent bankruptcy filing must have been the result of extenuating circumstances.

