

## Prior Derogatory Credit Event – Borrower Eligibility

To be eligible for a mortgage loan, Fannie Mae requires borrowers to demonstrate that they have re-established credit following a significant derogatory credit event, such as a foreclosure, bankruptcy, preforeclosure sale (commonly known as a short sale), or deed-in-lieu (DIL) of foreclosure. Fannie Mae has minimum waiting periods that must be met before the borrower is eligible for a new loan following such an action. Fannie Mae is focused on helping lenders to provide access to mortgages for creditworthy borrowers while supporting sustainable homeownership.

### Policy Update – Waiting Periods Following a Preforeclosure Sale or Deed-in-Lieu of Foreclosure

Fannie Mae updated the policy related to the minimum waiting periods following a preforeclosure sale or deed-in-lieu of foreclosure as follows:



	Standard Waiting Period	Waiting Period with Extenuating Circumstances
<b>Prior Policy</b>	<ul style="list-style-type: none"> <li>• 2 year waiting period with maximum 80% LTV</li> <li>• 4 year waiting period with maximum 90% LTV</li> <li>• Standard eligibility after 7 years</li> </ul>	2 year waiting period with maximum 90% LTV
<b>Revised Policy</b> <i>Effective for loans with application dates on or after 8/16/2014</i>	4 years	2 years

#### The revised policy:

- Provides opportunities for borrowers to obtain a loan to Fannie Mae’s maximum LTV sooner after the preforeclosure sale or DIL.
  - Borrowers are eligible to the maximum LTV after 2 years with extenuating circumstances (no longer restricted to max 90% LTV).
  - Borrowers are eligible to maximum LTV after 4 years without extenuating circumstances (as opposed to 7 years under prior policy).
- Continues to allow flexibility for borrowers who can demonstrate that the action was due to extenuating circumstances.
  - Extenuating circumstances are nonrecurring events that are beyond the borrower’s control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.
  - In many cases, extenuating circumstances are required for a creditor to have agreed to the preforeclosure sale or deed-in-lieu of foreclosure; therefore, many borrowers will be eligible under the shorter waiting period.
- Removes operational complexity for lenders, while retaining an adequate waiting period following the significant derogatory event.



## Sample Borrower Scenarios

1. Each borrower had a pre-foreclosure sale 5 years ago that was not due to extenuating circumstances.

Under <i>Prior</i> Fannie Mae Policy		Under <i>Revised*</i> Fannie Mae Policy	
 with a <b>10%</b> down payment <b>ELIGIBLE</b>	 with a <b>5%</b> down payment <b>NOT ELIGIBLE</b>	 with a <b>10%</b> down payment <b>ELIGIBLE</b>	 with a <b>5%</b> down payment <b>ELIGIBLE</b>

\*Effective for loans with application dates on or after 8/16/2014

2. Each borrower had a DIL 2 years ago that was due to extenuating circumstances.

Under <i>Prior</i> Fannie Mae Policy		Under <i>Revised*</i> Fannie Mae Policy	
 with a <b>10%</b> down payment <b>ELIGIBLE</b>	 with a <b>5%</b> down payment <b>NOT ELIGIBLE</b>	 with a <b>10%</b> down payment <b>ELIGIBLE</b>	 with a <b>5%</b> down payment <b>ELIGIBLE</b>

\*Effective for loans with application dates on or after 8/16/2014

NOTE: The borrower scenarios assume that the specific loan transaction is eligible for the stated 5% or 10% down payment. For a minimum of 5% down, eligibility is typically limited to purchase of a 1-unit principal residence with a fixed-rate mortgage. Refer to the [Eligibility Matrix](#) for details.

## Eligibility After Derogatory Credit Event – Full Policy

See Fannie Mae *Selling Guide* [B3-5.3-07: Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit \(07/29/2014\)](#)

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy — Chapter 7 or 11	4 years	2 years
Bankruptcy — Chapter 13	<ul style="list-style-type: none"> <li>• 2 years from discharge date</li> <li>• 4 years from dismissal date</li> </ul>	<ul style="list-style-type: none"> <li>• 2 years from discharge date</li> <li>• 2 years from dismissal date</li> </ul>
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure <sup>1</sup>	7 years	3 years Additional requirements after 3 years up to 7 years: <ul style="list-style-type: none"> <li>• 90% maximum LTV ratios<sup>2</sup></li> <li>• Purchase, principal residence</li> <li>• Limited cash-out refinance, all occupancy types</li> </ul>
Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account	4 years	2 years

<sup>1</sup> When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the lender may apply the bankruptcy waiting period if the lender obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

<sup>2</sup> References to LTV ratios include LTV, CLTV, and HCLTV ratios. 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.