

Fannie Mae addresses seasoning after “short sale”

By Christopher Doyle

Fannie Mae, the largest provider of mortgage money in the U.S., has recently issued a new policy defining the wait time before they will issue a new mortgage after a short sale. The mortgage giant has announced that they will allow homeowners who have sold a home using a short sale to be eligible for Fannie Mae financing 2 years after the short sale. By contrast, those homeowners losing a home through a foreclosure sale may have to wait up to 7 years to obtain another Fannie Mae loan.

A short sale is a transaction where the bank holding the loan agrees to take a loss and allows the home to be sold for less than the outstanding balance. This is typically done in circumstances where the homeowner owes more than the home is worth, or is “upside down.”

This policy has increased the incentive for homeowners to go through the short sale process rather than let the home go back to the bank. A bank generally takes a much greater financial loss when it acquires a home through foreclosure than when it allows a short sale. Homeowners who are proactive and short sell their home are “rewarded” with a much shorter recovery period before being eligible for new Fannie Mae financing.

The following are Fannie Mae’s timelines for foreclosure and short sale seasoning:

- Short sale – a borrower will be eligible for Fannie Mae financing 2 years after the date of the short sale
- Deed-in-lieu of foreclosure – eligible for Fannie Mae financing 4 years after the date of the deed-in-lieu
- Foreclosure – eligible for financing 5 years after the foreclosure. However, this requires a 10% down payment and a 680 credit score, otherwise the wait time is 7 years

Neither Freddie Mac nor FHA have announced policies on short sale seasoning, but I expect that they will in the near future.

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