

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

(August 11, 2010)

	<b>FHA<sup>i</sup></b>	<b>Fannie Mae<sup>ii</sup></b>	<b>Freddie Mac<sup>iii</sup></b>
<b>Short sale</b>	<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 <a href="http://www.efanniemae.com">www.efanniemae.com</a> 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>
<b>Deed-in-lieu of foreclosure</b>	<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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<b>Foreclosure</b>	Same as FHA's deed-in-lieu of foreclosure policy.	7 year wait from the completed foreclosure sale date; 3 year wait if extenuating circumstances are documented. Additional underwriting requirements apply for 4 years after 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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<b>Bankruptcy</b>	<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<sup>iv</sup></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>

Extenuating circumstances definitions and examples

- The FHA defines an extenuating circumstance as an event that was out of the borrower’s control that made a significant impact on the borrower’s finances and led to bankruptcy or foreclosure.
- Fannie Mae defines an extenuating circumstance as a nonrecurring event that is beyond the borrower’s control that results in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.

- Freddie Mac defines an extenuating circumstance as a nonrecurring or isolated circumstance, or set of circumstances, that was beyond the borrower's control and that significantly reduced income and/or increased expenses and rendered the borrower unable to repay obligations as agreed, resulting in significant adverse or derogatory credit information.

#### Bankruptcy definitions

- Chapter 7 bankruptcy – The chapter of the Bankruptcy Code providing for liquidation in which the individual may keep certain exempt property. The non-exempt assets are sold with the proceeds going to the creditors.
- Chapter 11 bankruptcy – The chapter of the Bankruptcy Code providing (generally) for reorganization, usually involving a corporation or partnership. A Chapter 11 debtor usually proposes a plan of reorganization to keep its business alive and pay creditors over time. People in business or individuals can also seek relief in chapter 11.
- Chapter 13 bankruptcy – The chapter of the Bankruptcy Code providing for adjustment of debts of an individual with regular income. Debtors propose a repayment plan to make installments to creditors over 3 to 5 years.
- Dismissal – A Chapter 13 bankruptcy may be dismissed at any time; by the borrower, as a voluntary dismissal, or by the court if the borrower fails to comply with the required payment schedule.
- Discharge – Upon completion of the payment plan, the borrower will receive a Chapter 13 discharge. The court may also discharge a Chapter 13 case prior to receiving all scheduled payments if it finds that the borrower made a sufficient amount of payments and is unable to continue the plan due to extenuating circumstances.

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

<sup>ii</sup> Source: Fannie Mae Selling Guide, B3-5.3-07, 4/30/10.

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

<sup>iv</sup> 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.