

**Fannie Mae Single Family / 2010 Selling Guide / Part B, Origination Through Closing / Subpart B3, Underwriting Borrowers / Chapter B3-5, Credit Assessment / Section B3-5.3, Traditional Credit History / B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit (06/30/2010)**



## **B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit (06/30/2010)**

### **Introduction**

This topic contains information on the waiting periods for significant derogatory credit events, including:

- General Information
- Bankruptcy (Chapter 7 or Chapter 11)
- Bankruptcy (Chapter 13)
- Multiple Bankruptcy Filings
- Foreclosure
- Deed-in-Lieu of Foreclosure and Preforeclosure Sale
- Summary — All Waiting Period Requirements
- Requirements for Re-establishing Credit

### **General Information**

The presence of significant derogatory credit events dramatically increase the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, and short sales.

**Note:** The terms “preforeclosure sale” and “short sale” are used interchangeably in this Guide and have the same meaning (see Deed-in-Lieu of Foreclosure and Preforeclosure Sale below).

The lender must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the borrower has re-established an acceptable credit history. The lender must make the final decision about the acceptability of a borrower's credit history when significant derogatory credit information exists.

If not clearly identified in the credit report, the lender must obtain copies of appropriate documentation for the significant derogatory credit event. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or preforeclosure sale; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

This topic describes the amount of time that must elapse (the “waiting period”) after a significant derogatory credit event before the borrower is eligible for a new loan salable to Fannie Mae. The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the application date of the new loan. See B3-5.3-08, Extenuating Circumstances for Derogatory Credit (04/01/2009) for additional information.

### **Bankruptcy (Chapter 7 or Chapter 11)**

A four-year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.

### *Exceptions for Extenuating Circumstances*

A two-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the discharge or dismissal date of the bankruptcy action.

## **Bankruptcy (Chapter 13)**

A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows:

- two years from the discharge date, or
- four years from the dismissal date.

The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge.

A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.

### *Exceptions for Extenuating Circumstances*

A two-year waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge.

## **Multiple Bankruptcy Filings**

For a borrower with more than one bankruptcy filing within the past seven years, a five-year waiting period is required, measured from the most recent dismissal or discharge date.

**Note:** 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.

### *Exceptions for Extenuating Circumstances*

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances.

## **Foreclosure**

A seven-year waiting period is required, and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower.

### *Exceptions for Extenuating Circumstances*

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the completion date of the foreclosure action. Additional requirements apply between three and seven years, which include:

- Maximum LTV ratios of the lesser of 90% or the maximum LTV ratios for the transaction per the Eligibility Matrix.

- The purchase of a principal residence is permitted.
- Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time.

**Note:** The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a seven-year waiting period has elapsed.

### Deed-in-Lieu of Foreclosure and Preforeclosure Sale

These transaction types are completed as alternatives to foreclosure. A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. A preforeclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer.

The following waiting period requirements apply:

Waiting Period	Additional Requirements
Two years	80% maximum LTV ratios <sup>1</sup>
Four years	90% maximum LTV ratios <sup>1</sup>
Seven years	LTV ratios per the Eligibility Matrix

#### Exceptions for Extenuating Circumstances

A two-year waiting period is permitted if extenuating circumstances can be documented, with maximum LTV ratios of the lesser of 90% or the maximum LTV ratios for the transaction per the Eligibility Matrix.

<sup>1</sup> 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.

#### Exceptions for Extenuating Circumstances

A two-year waiting period is permitted if extenuating circumstances can be documented, with maximum LTV ratios of the lesser of 90% or the maximum LTV ratios for the transaction per the Eligibility Matrix.

### Summary — All Waiting Period Requirements

The following table summarizes the waiting period requirements for all significant derogatory credit events.

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	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 and Preforeclosure Sale	<ul style="list-style-type: none"> <li>• 2 years — 80% maximum LTV ratios<sup>2</sup></li> <li>• 4 years — 90% maximum LTV ratios<sup>2</sup></li> <li>• 7 years — LTV ratios per the Eligibility Matrix</li> </ul>	2 years — 90% maximum LTV ratios <sup>2</sup>

<sup>2</sup> 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.

### Requirements for Re-establishing Credit

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, or preforeclosure sale, the borrower's credit will be considered re-established if all of the following are met:

- The waiting period and the related additional requirements are met.
- The loan receives a recommendation from DU that is acceptable for delivery to Fannie Mae or, if manually underwritten, meets the minimum credit score requirements based on the parameters of the loan and the established eligibility requirements.
- The borrower has traditional credit as outlined in Section B3-5.3, Traditional Credit History. Nontraditional credit or "thin files" are not acceptable.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2010-09	June 30, 2010
Announcement SEL-2010-08	June 23, 2010
Announcement SEL-2010-06	April 30, 2010
Announcement SEL-2010-05	April 14, 2010

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Reference

Private Notes

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Related Documents

Related Revisions

Fannie Mae Single Family  
2010 Selling Guide  
Part B, Origination Through Closing  
Subpart B3, Underwriting Borrowers  
Chapter B3-5, Credit Assessment  
Section B3-5.3, Traditional Credit History

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## **B3-5.3-08, Extenuating Circumstances for Derogatory Credit (04/01/2009)**

### **Introduction**

This topic provides information on extenuating circumstances for derogatory credit information.

### **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.

If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include documents that confirm the event (such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.) and documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.).

The lender must obtain a letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate the borrower had no reasonable options other than to default on their financial obligations.