

# Fannie cracking down on walkaways

## 'Strategic defaults' can lock buyers out of market for 7 years

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Fannie Mae says it will get tough on borrowers who engage in "strategic defaults," or walk away from a home that's worth less than what's owed on the mortgage even if they can afford to keep making their payments.

Economist Mark Zandi of Moody's Analytics [has estimated](#) that 9 million homeowners are "underwater" by more than 20 percent, making them more likely to consider a strategic default.

Fannie Mae said Wednesday that it will not only refuse to guarantee another loan for seven years if it has evidence that a borrower chose to default on their loan, and will seek to recoup losses in court through deficiency judgements in states that allow lenders such

recourse.

There's a carrot-and-stick aspect to the new policy. Troubled borrowers who work with their servicer on foreclosure alternatives such as loan modifications, short sales, or deeds in lieu of foreclosure can be eligible for a new loan in two to three years if they can show extenuating circumstances such as job loss, illness or divorce.

"Walking away from a mortgage is bad for borrowers and bad for communities, and our approach is meant to deter the disturbing trend toward strategic defaulting," said Terence Edwards, Fannie Mae's executive vice president for credit portfolio management, in a [press release](#).

"On the flip side, borrowers facing hardship who make a good faith effort to resolve their situation with their servicer will preserve the option to be considered for a future Fannie Mae loan in a shorter period of time."

Under policy changes announced in April, borrowers may be eligible for a loan guaranteed by Fannie Mae within two years of a short sale or deed in lieu of foreclosure.

Those who can demonstrate extenuating circumstances such as a job loss will be required to make downpayments of at least 10 percent, and those who cannot must make 20 percent downpayments.

Fannie Mae usually requires five years for borrowers who have been foreclosed on to reestablish credit, but those who can demonstrate extenuating circumstances may qualify in as soon as three years.

Next month, Fannie Mae says it will instruct its servicers to begin monitoring delinquent loans facing foreclosure and issuing recommendations for cases that warrant the pursuit of deficiency judgments.

While Fannie Mae won't be able to obtain deficiency judgements against borrowers who default on their first loans in "non-recourse" lending states, in some of those states it might have recourse to seek deficiency judgements on refinance and home-equity loans.

In the 1930s, many states including California passed laws that barred lenders from suing homeowners who defaulted on their mortgages for losses above and beyond what lenders were able to recover when foreclosing on and reselling the borrower's home.

California lawmakers are considering a bill that would extend some protection from deficiency judgments for borrowers who refinanced their mortgages ([see story](#)).