

Foreclosure, Deed in Lieu, Short Sale...how do these impact the next loan

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Over the last couple of weeks, in speaking with numerous homeowners, real estate agents and investors, I've noticed that there's a lot of confusion and misunderstanding about the impact of Short Sales, Deed-in-Lieu's and Foreclosures on one's ability to get a new mortgage.

Over and over again, I've heard self-proclaimed experts make many incorrect statements. So many, that I felt compelled to do my best to separate reality from myth, fact from fiction.

Getting a New Mortgage

It's actually pretty easy to provide concrete proof of when it's possible to qualify for a new mortgage after a Short Sale, Deed-in-Lieu or Foreclosure. The mortgage meltdown has reduced the main players in the mortgage industry to FNMA, FHLMC, FHA, VA and RD. Gone are the numerous subprime and Alt-A players that seemed to have a mortgage program for anyone.

FNMA – Federal National Mortgage Association

Guidelines changed regarding these issues on June 25, 2008 with [Announcement 08-16](#).

Short Sale: FNMA refers to these as "Preforeclosure Sales" and requires a 2 year waiting period after the sale, with acceptable re-established credit.

Deed-in-Lieu: minimum waiting period of 4 years, with a minimum of 10% down required for 7 years. There is a 2 year exception for extenuating circumstances.

Foreclosure: standard of 5 years waiting period, with minimum of 10% down & 680 credit score for 7 years. Primary residences only, no second homes or investment property loans for 7 years. There is a 3 year exception for extenuating circumstances.

Bankruptcy: Chapter 7 requires a 4 year waiting period, but there is a 2 year exception for extenuating circumstances.

Chapter 13 is 2 years from discharge date or 4 years if the Chapter 13 is dismissed (not completed).

FHLMC – Federal Home Loan Mortgage Corporation

Guidelines changed regarding these issues with the release of [Bulletin October 17, 2008](#). For some reason FHLMC isn't as user-friendly with their updates in comparison to FNMA. Instead of listing the specific changes in their Bulletins like FNMA, they force you to refer to their guidelines to find the changes. The ones related to our topic are found in [Chapter 37-7](#). FHLMC could definitely use some PR coaching to be more user-friendly.

Short Sale: FHLMC refers to these as "Short Payoffs" and requires a 4 year waiting period after the sale, with acceptable re-established credit. There is an exception for extenuating circumstances of 2 years.

Deed-in-Lieu: minimum waiting period of 4 years, with a minimum of 10% down required for 7 years.

Foreclosure: standard of 5 years waiting period, with minimum of 10% down for 7 years. Primary residences only, no second homes or investment property loans for 7 years. There is an exception for extenuating circumstances of 3 years.

Bankruptcy: Chapter 7 requires a 4 year waiting period.

Chapter 13 is 2 years from discharge date or 4 years if the Chapter 13 is dismissed (not completed).

FHA – Federal Housing Administration

FHA is a part of HUD and as of this point does not differ in how they address Short Sales, Deed-in-Lieu's or Foreclosures. They're all treated the same. Their great source for their guidelines can be found at <http://www.fha-lending.com/CD/HUD%204155r-5.pdf>.

All: standard of 3 years waiting period required. There is an exception for extenuating circumstances.

Bankruptcy: Chapter 7 requires a 2 year waiting period, minimum 12 months with extenuating circumstances. Chapter 13 requires 12 months of timely payments and must have court's authorization.

VA - Veterans Administration

The credit requirements are the same as FHA. More information can be found at:
<http://www.homeloans.va.gov/veteran.htm>

RD - Rural Development

A part of the U.S. Department of Agriculture. The credit requirements are mostly the same as FHA & VA. More information can be found at <http://www.rurdev.usda.gov/CA/pdf%20files%20and%20documents/GRH%20UNDERWRITING%20GUIDEL.pdf>

Bankruptcy: minimum 3 year waiting period required, no difference between Chapter 7 or 13. Extenuating circumstances may be considered for exceptions.

I highly recommend checking out some of the links I've included. Direct anyone giving you contradictory information to them, so they may reference the correct facts.

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