



Prior Derogatory Credit Event: Borrower Eligibility Fact Sheet

To be eligible for a mortgage loan, Fannie Mae requires borrowers to demonstrate that they have re-established credit following a significant derogatory credit event, such as a foreclosure, bankruptcy, preforeclosure sale (commonly known as a short sale), or deed-in-lieu (DIL) of foreclosure. Fannie Mae has minimum waiting periods that must be met before the borrower is eligible for a new loan following such an action. Fannie Mae is focused on helping lenders to provide access to mortgages for creditworthy borrowers while supporting sustainable homeownership.

This policy:

- Provides opportunities for borrowers to obtain a loan to Fannie Mae’s maximum LTV after the required waiting period for most derogatory credit events.
- Allows additional flexibility and shorter waiting periods for borrowers who can demonstrate that the action was due to 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.
 - In many cases, extenuating circumstances are required for a creditor to have agreed to certain actions, such as a preforeclosure sale or deed-in-lieu of foreclosure; therefore, many borrowers will be eligible for the shorter waiting period.

Eligibility After Derogatory Credit Event

See Fannie Mae Selling Guide [B3-5.3-07: Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit](#) (07/29/2014)

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy — Chapter 7 or 11	4 years	2 years
Bankruptcy — Chapter 13	2 years from discharge date 4 years from dismissal date	<ul style="list-style-type: none"> • 2 years from discharge date • 2 years from dismissal date
Multiple Bankruptcy Filings	5 years from the most recent discharge or dismissal date if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date if more than one filing within the past 7 years
Foreclosure ¹	7 years	3 years Additional requirements after 3 years up to 7 years: <ul style="list-style-type: none"> • 90% maximum LTV ratios² • Purchase, principal residence • Limited cash-out refinance, all occupancy types
Deed-in-Lieu of Foreclosure, Preforeclosure Sale (short sale), or Charge-Off of Mortgage Account	4 years	2 years

¹ When both a bankruptcy and foreclosure are disclosed on the loan application, the lender may apply the bankruptcy waiting period if the lender obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

² References to LTV ratios include LTV, CLTV, and HCLTV ratios. 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.



Inaccurate Foreclosure Information or Extenuating Circumstances

In some cases, a credit report may inaccurately account for a foreclosure, or list a foreclosure when there were extenuating circumstances. Lenders may have options that allow them to use Desktop Underwriter® (DU®) when a foreclosure is reported inaccurately, or when the reported foreclosure was due to extenuating circumstances.

See Fannie Mae *Selling Guide* [B3-5.3-09: DU Credit Report Analysis](#) [B3-5.3-09: DU Credit Report Analysis - Foreclosure](#) (10/24/2016).

The examples below apply to loans underwritten in DU.



Example #1: inaccurate foreclosure information

Jane's credit report states that she had a foreclosure within the past seven years. However, this information is inaccurate – Jane actually had a short sale.

What can the lender do to accurately determine whether Jane is eligible for a mortgage loan?

- Confirm that Jane's credit report contains inaccurate information and that she did, indeed, have a short sale and not a foreclosure.
- Confirm that the short sale meets Fannie Mae's waiting period requirements.
- Enter "**Confirmed CR FC Incorrect**" in Explanation field for question c. in the Declarations section of the online loan application.
- Provide supporting documentation in the loan file that shows that the short sale was completed four or more years from the disbursement of the new loan.
- Resubmit the loan casefile in DU.



Example #2: extenuating circumstances

John abruptly lost his job and had a foreclosure on his home five years ago. Because a sudden loss of employment is considered an extenuating circumstance, his waiting period should only be three years, not seven, though additional requirements will apply until he is seven years post-foreclosure.

What can the lender do to accurately determine whether John is eligible for a mortgage loan?

- Confirm that John's foreclosure was indeed caused by an extenuating circumstance that occurred beyond the three-year waiting period.
- Enter "**Confirmed CR FC EC**" in the Explanation field for question c. in the Declarations section of the online loan application.
- Provide supporting documentation in the loan file that shows that the foreclosure was due to extenuating circumstances and was completed three or more years from the disbursement date of the loan, and that the loan complies with the additional requirements for foreclosures with extenuating circumstances.
- Resubmit the loan casefile in DU.

When the foreclosure waiting period is the only reason the loan casefile is receiving a Refer with Caution recommendation, DU will issue a message to remind the lender that the Confirmed CR FC Incorrect or Confirmed CR FC EC indicators may be used if the lender is able to confirm the information is inaccurate or due to extenuating circumstances. When the loan casefile is resubmitted to DU using one of these indicators, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment.