Fannie & Freddie 2016 Loan Limits; Agency Requirements After a Bankruptcy or Foreclosure

By: Rob Chrisman | Fri, Nov 27 2015, 11:28 AM

There are 50 states in the U.S., and 3007 counties in those states. (The numbers of counties per state ranges from the 3 in Delaware to 254 in Texas; Louisiana and Alaska have parishes - functionally equivalent.) Out of the 3,007 counties, 39 of them had their **conforming loan limits increased** by the Federal Housing Finance Administration (FHFA) - the overseer of Freddie Mac and Fannie Mae and the 11 Federal Home Loan Banks. For the remaining 2,968 the FHFA announced that the $417,000 baseline conforming loan limit for the GSEs would remain unchanged in 2016. As a result, the high-cost ceiling will remain $625,500 for 2016.

The FHFA increased the loan limits for 39 counties between 1% and 8% due to slightly higher median home prices in those areas. Most of them were in California, Colorado, Tennessee, Massachusetts, or New Hampshire.

So in most of the country the loan limit **will remain at $417,000** for one-unit properties. For those of you, mostly in urban areas where markets are still "on fire", hoping for a bump, remember the requirement that prior price declines be fully offset before a loan limit increase can occur. And prior price declines (remember 2006-2010?) haven't been fully recouped. The Housing and Economic Recovery Act of 2008 (HERA) established the baseline loan limit at $417,000 and mandated that, after a period of price declines, the baseline loan limit cannot rise again until home prices return to pre-decline levels. The FHFA has determined that the average U.S. home value in the third quarter of this year remained below its level in the third quarter of 2007.

If you have any complaints or questions, send a note to LoanLimitQuestions@fhfa.gov.

Fannie has updated rules for condos, co-ops and HomeReady mortgages. The Selling Guide has been revised to include changes to refund of loan-level price adjustments, co-op project review policy, project eligibility review service for established condo projects, updates to HomeReady and delivery of loans with more than two borrowers.

Fannie Mae is providing servicers advance notice that the requirement for evaluation on or before Dec. 1, 2015 for the Mortgage Release enhanced borrower incentive is being eliminated. The enhanced borrower incentive for Mortgage Release will continue beyond Dec. 1 for all jurisdictions identified in Announcement SVC-2014-21 and in Servicing Guide section D2-3.3-02, specifically, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, and the District of Columbia.

Effective with casefiles submitted to DU 9.3, **PennyMac** will be aligning with the changes announced by Fannie Mae in announcement SEL 2015-10 and DU Release Notes Version 9.3. Loan casefiles created in DU Version 9.2 and resubmitted after the weekend of December 12 will continue to be underwritten through DU Version 9.2. Click the link to view highlights from this announcement.

Are you ready for **Fannie Mae's HomeReady** affordable program? Arch MI's Down Payment Assistance Guidelines Program will support HomeReady in its entirety when the program is implemented in DU version 9.3 on December 12th, 2015.

Fannie Mae's HomeReady program, rolled out a few months ago, is **turning some heads** as it allows non-borrower income to count in qualifying homeowners for low-down payment loans. In other words it allows lenders to consider factors other than the immediate income of a loan applicant. Fannie also will consider rent from boarders on the property as a factor...will it expand credit to more borrowers and open the door to more innovation in evaluating a borrower's ability to repay? That's the plan, and we'll see what happens in December when DU can be used for the program.

A while back Matt G. wrote saying, "One thing readers should remember about any list of derogatory credit policies would be Fannie's recent change on foreclosures being included in bankruptcies. To wit, 'The Selling Guide has been updated to indicate that if a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period.' This is pretty significant considering the massive delays between BK, foreclosure proceedings, and the actual transfer of title."

Speaking of bankruptcies, a while back I posted some information on borrowers being able to finance a home purchase **after a foreclosure or bankruptcy**. I gave it a shot in spite of not being an underwriter, and received some well-received corrections/additions/corrections which I posted below - mostly concerning FHA policies. What I initially posted was this.

FHA requirements:

Foreclosure: 1-3 years from completion date. (As little as 1 year if borrower qualifies for "Back to Work" see Mortgagee Letter 2013-26 for qualifying criteria.)

Short Sale Deed-In-Lieu: 3 years from completion date.

Chapter 7 bankruptcy: 2 years from discharge date.

Chapter 13 bankruptcy: 2 years from discharge date. (Anything less than 2 years but greater than 1 year must be downgraded to a manual underwrite.)

VA requirements:

Foreclosure: 2 years for loan amounts < $417,000 - 7 years for loan amounts > $417,000.

Short Sale: 2 years for loan amounts < $417,000 - 7 years for loan amounts > $417,000.

Chapter 7 bankruptcy: 2 years for loan amounts < $417,000 - 7 years for loan amounts > $417,000.

Chapter 13 bankruptcy: 1 year if the repayment period has elapsed, 7 years for loan amounts > $417,000. (Applicant must also receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction - if not minimum waiting period is 2 years.)

USDA requirements:

Foreclosure: 3 years from completion date.

Short Sale: 3 years from completion date.

Chapter 7 bankruptcy: 3 years from discharge date, 1-year possibility with proven extenuating circumstances.

Chapter 13 bankruptcy: 1 year of the repayment period has elapsed. (Applicant must also receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction - if not minimum waiting period is 2 years.)

Conventional:

Foreclosure: 7 years from completion date, 3-year possibility with proven extenuating circumstances.

Short Sale: 4 years from completion date, 2-year possibility with proven extenuating circumstances.

Chapter 7 bankruptcy: 4 years from discharge or dismissal date, 2-year possibility with proven extenuating circumstances.

Chapter 13 bankruptcy: 2 years from discharge date 4 Years from dismissal date, 2-year possibility with proven extenuating circumstances.

Jonathan R. sent, "Just a note on the FHA requirements for a short sale. If the borrower was current at the time of the short sale & had no 30 day late payments in the 12 months prior to the short sale, there is no mandatory 3 year waiting period. The 3 year waiting period only applies if they were delinquent on the mortgage. There is no waiting period as long as the veteran's overall credit is good."

Michael U. "VA has no set waiting period for a short sale. This is a common overlay which is accepted as a guideline but is an overlay. The 7 years wait for high balance is most certainly an overlay and not a common one. For FHA you can actually obtain a mortgage while in chapter 13 if you have made 1 years' worth of payments and you have approval from the bankruptcy trustee. Lastly you forgot the unicorn scenario: being able to obtain an FHA loan 1 day after short sale of you can prove you did not short sale to take advantage of the market - i.e., your job relocated you and you must sell your home at the current market values."

Greg H. sent "On FHA Short Sales there is a provision for doing a purchase with FHA Financing with no wait period after a Short Sale if a) the short sale was not financed with FHA loan, and b) the borrower was not 30 days late on mortgage or housing payment in the last 12 months."

Don't forget that HUD released an updated policy that allows **reverse mortgage servicers** the ability to permit a surviving non-borrowing spouse to stay in their home if the mortgage was originated prior to August 4th, 2014. Part of the decision is due to multiple lawsuits that were filed on behalf of surviving spouses and advocates have applauded HUD on the new policy. An eligible surviving non-borrowing spouse includes a non-borrowing spouse who was legally married or engaged in a committed relationship with the borrower, resides or resided in the property as their primary residence at the origination and duration of the HECM and who is able to obtain -within 90 days following the death of the last surviving borrower - good, marketable title to the property or legal right to remain in the property for life.

Southern California's **Mountain West Financial** announced it will no longer require a 12 month waiting period after the discharge of a Chapter 13 Bankruptcy in order to provide FHA financing. This will require a manual downgrade if the date of the Borrower's bankruptcy discharge as reflected on the bankruptcy documents is within two years from the date of case number assignment. Contact your Rep for additional details.

Turning to rate sheets, I don't know many folks that care where the market was, or is, today, but I would be remiss if I blew it off entirely. On Wednesday, in spite of the plethora of economic releases and a decent 7-year T-Note auction, long term interest rates barely budged. (There is nothing out today besides shoppers.) The 10-year closed at 2.23% and this morning we're at 2.21% with 30-year fixed agency MBS prices about .125 better.

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