



Fannie Mae Intensifies Penalties for Strategic Defaulters

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Despite being able to afford their monthly mortgage payments, some borrowers are walking away from their

homes based on the sheer fact that the property is currently worth less than what is owed. This phenomenon, dubbed “strategic default,” isn’t looked upon kindly, as it unnecessarily adds to the growing number of foreclosures across the nation.

In an effort to sway homeowners away from this growing trend, [Fannie Mae](#) announced policy changes on Wednesday designed to encourage borrowers to work with their servicers and pursue alternatives to foreclosure.

Under these changes, defaulting borrowers who walk away and had the capacity to pay or did not complete a workout alternative in good faith will be ineligible for a new Fannie Mae-backed mortgage loan for a period of seven years from the day of foreclosure.

In addition, Fannie Mae said it will take legal action to recoup the outstanding mortgage debt from borrowers who strategically default on their loans in jurisdictions that allow for deficiency judgments. In an announcement next month, the company said it will be instructing its servicers to monitor delinquent loans facing foreclosure and put forth recommendations for cases that warrant the pursuit of deficiency judgments.

“We’re taking these steps to highlight the importance of working with your servicer,” said Terence Edwards, executive vice president for credit portfolio management. “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.”

On the flip side, Edwards said 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.

According to Fannie Mae, troubled borrowers who work with their servicers and provide information to help the servicer assess their situation can be considered for foreclosure alternatives, such as a loan modification, a short sale, or a deed-in-lieu of foreclosure. Fannie Mae said borrowers with extenuating circumstances who work out one of these options with their servicer could be eligible for a new mortgage loan in three years and in as little as two years depending on the circumstances.

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