Greenville News 6/24/2010

Fannie Mae to penalize those who walk away

Mortgage lender hoping to reduce strategic defaults by homeowners

By Eileen A.J. Connelly
THE ASSOCIATED PRESS

WASHINGTON — Government-sponsored mortgage purchaser Fannie Mae is trying to encourage distressed homeowners to find alternatives to foreclosure by banning those who walk away from getting new loans for seven years.

Troubled borrowers who do not try in good faith to work out a deal, but have the capacity to pay, are targeted by the policy announced Wednesday.

"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, executive VP for credit portfolio management.

A strategic default occurs when a homeowner stops making payments on a mortgage despite being able to do so. It has become more common in communities where housing values fell sharply and homeowners are "underwater," or owe more than their houses are worth.

Fannie Mae said that where the law allows, it plans to take legal action to recoup outstanding mortgage debt from borrowers who strategically default. The company plans to instruct its servicers to monitor loans facing foreclosure and recommend cases to pursue.

A spokesman for Freddie Mac, the other government-sponsored mortgage buyer, could not say if it will institute a similar policy. Freddie Mac's policy now requires at least a five-year wait.

Fannie and Freddie buy mortgages from lenders and package them into bonds that are resold to investors. Together, they own or guarantee almost 31 million home loans worth about $5.5 trillion. That's about half of all mortgages.

Fannie Mae said homeowners who make a good faith effort to resolve their situation with their mortgage services, and those who have extenuating circumstances, will be eligible for new loans in a shorter time period, but did not detail how long the wait might be.

In afternoon trading, Fannie Mae shares fell 2.1 percent to 41 cents.