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Foreclosure restricts future home financing

WASHINGTON – May 28, 2008 – Homeowners going through foreclosure today may have to wait five years before they are able to get financing for a home again.

That's according to new federal guidelines from the Federal National Mortgage Association and the Federal Home Mortgage Corp., otherwise known as Fannie Mae and Freddie Mac.

And after those five years, a borrower would have to have a Fair Isaac Corp. (FICO) credit score of 680 and put 10 percent down, said Leslie Swart, managing partner and senior loan officer at Blue Skye Lending in Lakewood Ranch.

A FICO score ranges from 300 to 850 points and factors in things like length of credit history, how timely a person is in paying his or her bills and how much an individual has in debt versus available credit, according to Bankrate.com. About 27 percent of the nation falls into the 750-799 scoring range, according to FICO. The smallest category 2 percent – has scores of 499 or less.

"Fannie Mae and Freddie Mac, they're actually tightening up those restrictions that much more," Swart said. "The pendulum has swung to the other extreme."

The move has come about as a result of soaring foreclosures in the nation, mostly linked to subprime mortgages that have left the financial sector in disarray.

Banks and lenders, many of which have written down billions of dollars in bad loans, are less willing to take risk in the subprime aftermath. Fannie Mae and Freddie Mac are the largest purchasers of loans sold by banks and lenders on the secondary market.

Traditional mortgage companies also are looking at credit qualifications with more scrutiny, Swart said.

"What's interesting is, it used to be we could say anything (credit score) over 700 or 720, you're golden," Swart said. "But some lenders are pricing their (annual percentage) rates differently at higher FICO levels. You can still get financing in the high 600s, but your rates are better if you're 720 or plus."

Bottom line: Homeowners should do everything they can to avoid foreclosure, either through renegotiating the loan with the bank or arranging a short sale of the property.

"Foreclosure and bankruptcy will affect your credit in a real negative manner," said Mike Rahn, production manager with CNL Bank in Sarasota. "A short sale will affect it less than that."

A short sale involves the bank agreeing to let the borrower sell the property for less than what he or she owes on the mortgage. The bank ends up saddled with the loss on the mortgage.

"A seller could negotiate a short sale with the bank and it could have little or no impact on their credit," Rahn said.

Most banks evaluate whether to allow a short sale on a case-by-case basis, he adds.

Manatee County court records suggest banks may be more willing to cooperate with borrowers as the foreclosure fallout continues.

Out of 2,528 foreclosure suits filed in 2007, 328 – or roughly 13 percent – were dismissed, suggesting borrowers were able to make repayment or short sale arrangements with lenders.

The worst thing you can do is merely walk away from a home being foreclosed on, said Tracey Starrett, an attorney with the Law Offices of Paul A. Blucher in Bradenton.

Doing so doesn't necessarily let one off the hook for his or her obligations to the lender, she said.

"A lot of times," Starrett said, "if the bank decides that they're not going to be satisfied with just getting the property back and they want to sue on the note as well because there's a deficiency, meaning you're upside down, they can file a summary judgment for a deficiency and come after you for that. So a lot of times, a foreclosure may lead to bankruptcy."

"Your credit score takes the biggest hit with bankruptcy. Foreclosure is second. A short sale is a lesser hit."

A bank's decision to pursue a deficiency judgment is also typically made case by case, said John Hanlon, assistant vice president of commercial lending with Community Bank in Bradenton.

"If a borrower has other potential assets or a way to repay and the bank's going to suffer a loss, we want to get back as much as we can," Hanlon said. "I think a lot of banks are trying to work things out with the borrower. The bank doesn't want to take the property back, obviously."

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