

Fannie Mae Short Sale Guidelines

Have you ever wanted to know the rules the loss mitigator is following when you are negotiating a short sale? Here's the rules from Fannie Mae that should be very enlightening if you take the time to read them.

NOTE: These are merely guidelines and because a lender has a guideline does not mean it has to be followed.

FNMA Short Sale

Introduction:

The purpose of these procedures is to complete a successful short sale workout in accordance with FNMA Federal National Mortgage Association guidelines.

References

- 1 FNMA – Home Savers Solution Network
- 2 FNMA Delegated Schedule of Authority
- 3 Mi Companies Work Rules

Mortgagor Qualifications

When you are qualifying the mortgagor, it's important to review the financial information on file to determine whether or not the mortgagor has experienced a verifiable loss of income or increase in living expenses. The following information is reviewed to make this determination:

- **Current POI Proof of Income** should not be older than 60 days for all sources:
- **Pay stubs:** Pay stubs *must* be legible and include the mortgagor name or Social Security Number, pay dates, rate, and deductions.
- **Profit and Loss:** *Must* be for the last 90 days, signed, and dated by the preparer.
- **Rental:** Need a signed and dated letter from the renter or a lease agreement including payment frequency and amount.
- **Non-Obligor income:** If the non-obligor is contributing to the household with his income, need a signed and dated letter stating how much is being contributed monthly from the non-obligor.

- **Child Support:** Need a copy of the child support order or letter from the person paying child support that states the amount and how often it is paid.

Need copies of three months worth of bank statements if direct deposited from the state disbursement unit.

- **Social Security:** Need current copy of award letter or if direct deposited.
- **Reason for Default** – You need a brief explanation indicating cause of delinquency. Verify the mortgagor had a decrease in income and/or increase in expenses that caused the delinquency.

This can be a separate letter or on the space provided on the Financial Worksheet.

- **Completed Financial Worksheet:** Completed, signed, and dated by all mortgagors.

This is only necessary if the financial information on DLQ3 has not been updated in the last 30 days.

- **Credit Report:** *Must* be pulled within the last 90 days.

Order Appraisal – When the appraisal is completed, you must complete three steps before the mortgagor(s) are considered for a short sale.

- Qualify the mortgagor
- Qualify the property
- Qualify the sales contract

Qualify the Mortgagor

The Liquidation negotiator will...

1. Calculate all qualifying income.
2. Verify the expenses on the Financial Worksheet.

The reason for default is due to a verifiable increase in expenses or decrease in income.

3. If the expenses are greater than the income, proceed with qualifying the property.

If the expenses are less than the income, the mortgagor may qualify for a retention option. Redirect the file to the FNMA Retention team. Also, if there is a positive cash flow you may want to ask the borrower to make a cash contribution or sign a promissory note.

Qualify the Property

Property may be occupied or vacant. Most MI insurers request 91% of the "as is" appraised value; FNMA requires 90% of the "as is" appraised value.

Qualify the Sales Contract

Sales Contract

The Liquidation negotiator will...

1. Make sure the contract is executed by all parties.
2. Counter the offer to the FMV Fair Market Value (appraised value).

The contract must have a closing date.

3. Have any "and/or assigned" clauses removed from the contract.

"And/or assigned" clauses cannot be included in the sales contract. This clause means they can place the deed in someone's name other than the listed buyers which could violate HUD's *Arm's Length Policy*.

4. Have the contract addendum and listing addendum signed by all parties.

HUD 1 or Net Sheet

The Liquidation negotiator will...

1. Verify all seller closing costs are normal and customary.
 - Realtor commissions do not exceed 6 percent of the sales price. (6% if 2 realtors are involved; 3% if 1 realtor is involved)
 - Sales price on the HUDI matches the sales contract.
 - The net proceeds are at least 90 percent of the appraised value & 91% for most Mi Co.

Cost Analysis

The Liquidation negotiator will...

1. Verify outstanding foreclosure fees and cost.
2. Run the cost analysis (Be sure to include the outstanding f/c attorney fees & costs & the appraisal fee). Submit the presale through HSSN to obtain approval on non-delegated deals. Wait to obtain approval from the investor & Mi Co before issuing out the approval letter.

Issue Approval

The Liquidation negotiator will...

1. Make sure the Approval letter contains the following:
 - The buyer(s) and seller(s) names on it.
 - The date of the sales contract.

- The estimated closing date.
- The approved closing costs.

Steps to Follow Prior to Closing

The escrow company will need to provide the estimated final HUD Housing and Urban Development I for approval.

The Liquidation negotiator will...

1. Fax the approved HUD I and Attachment F back to the closing title company or closing attorney.
2. Complete Attachment G.

Steps to Follow After Closing

The Liquidation negotiator will...

1. Verify you have received the net proceeds check, HUDI signed by all parties.
2. Make sure the proceeds check and the net amount on the HUDI match or funds wired confirmation.
3. Make sure the disbursement date on the HUD1 matches the check date.
4. Forward the complete file to Settlement along with the Settlement Checklist.

Removals/Denials

The mortgagor(s) may be terminated from the Pre Sale program for the following reasons.

- Un-resolvable title issues.
- The mortgagor did not market the property at FMV to obtain an offer.
- Voluntary withdrawal by the mortgagor(s).