



Major Lenders Reinstate Declining Markets Policy

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With the record number of foreclosures increasing as a result of sub-prime lending practices, lending institutions appear to be returning to more traditional loan origination procedures as well as applying conservative measures based on mortgage appraisals. These endeavors are being enacted by the Government Services Enterprises (GSEs) in an effort to stabilize the mortgage finance industry through providing mortgage loans based upon sound underwriting and supporting affordability.

To support the mission, FannieMae reinstated a *Maximum Financing in Declining Markets* policy. Effective for all loans delivered with application dates on or after January 15, 2008, the maximum Loan-to-Value (LTV) /Combined Loan to Value (CLTV) ratio will be reduced 5% for any transaction where the home is determined to be in a declining market by county. Virtually all lenders have followed suit. While there is no official government listing of "declining markets" to reference, industry analysts are relying upon a variety of sources, including the S&P/Case-Shiller® Home Price Indices, the Office of Federal Housing Enterprise Oversight Index (OFHEO) Index, and the National Association of Realtors® statistics to determine lists which are subject to update as appropriate. The most common at-risk areas include those impacted by high levels of job loss, such as the Midwest (Michigan, Ohio, Indiana), as well as those regions that are realizing the largest number of foreclosures due to artificially inflated home values in years past such as California, Florida, Arizona, and Nevada.

It is important to note that in addition to the declining market adjustments, individual borrowers are being scrutinized more than ever. Lenders are instituting additional fees and/or higher interest rates for those with credit scores less than 720. As a slow process to restore balance, home sale transactions located in a declining market may pose additional challenges for both buyer and seller with the objective being that getting back—to-basics lending philosophies may help to offset chances the "bubble" does not burst again.

Key Points

- ▶ If the property is located in a county listed on a declining markets list for the designated investor, the customer will be required to come up with an additional down payment, depending on the LTV and the specific market the customer is purchasing.
- ▶ If an appraiser indicates a property is in a declining market, regardless of whether or not the county is listed by the lender on their at-risk market list, the additional down payment requirements will apply.
- ▶ Current practice reflects no exceptions granted on declining market properties.



<http://www.freddiemac.com/speeches/mullings/pm031908.html>
<https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/declmkt/>

About Paragon

Originally founded as a relocation consulting company specializing in domestic and international relocation and global assignment program development consulting, our mission was to develop cost-effective mobility programs that offered more services to the transferring employee, at less cost to the organization. Today, we maintain an extensive consulting practice focused on global mobility issues in their entirety.

Paragon's Consultants have worked with companies throughout the world in virtually every industry to revise, develop, or otherwise build a relocation policy providing your firm considerable experience in policy development.