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Fannie mae mortgage lending guidelines

NEW YORK (TheStreet) - Fannie Mae (FNMA) was the winner among the major U.S. financial stocks on Monday, with shares rising more than 9% to close at $3,58.The S&P 500I: GSPC rose 0.7% to set a closing record of 1,847.7, as U.S. markets followed European markets higher. The move came after news that the Obama administration was working with European leaders on a financial rescue package for Ukraine, on the heels of that nation's removal of President Viktor Yanukovych over the weekend. The KBW Bank index (I:BKX) rose 1.2% to 68.7, and all 24 component shares showed gains. Morgan Stanley (MS) - Get Report was leading among big-cap banks, with shares rising 2.3% to close at $30.39. See 'Too Big to Fail' Gets Even Bigger for more on stock valuations for Morgan Stanley and other big-cap banks. Fannie Mae on Monday announced fourth-quarter earnings of $6.5 billion and said it would pay dividends totaling $7.2 billion to the government in March. Fannie Mae and its sister company Freddie Mac (FMCC) are together known as government sponsored companies, or GSEs, and were taken under the government's conservatory at the height of the U.S. real estate crisis in September 2008. Freddie's shares rose 6.2 percent. For the whole of 2013, Fannie earned nearly $84 billion, with earnings boosted by a huge recovery of deferred tax assets, but after paying dividends on state senior preferred shares, common shareholders were left with a net loss of 25 cents a share. The U.S. Treasury has $117.1 billion senior favorite Fannie Mae shares and $72.3 billion in senior preferred Freddie Mac shares. GSEs stopped taking draws from treasury in the second quarter of 2012, and have been profitable ever since. Under their amended rescue agreements, GSGs will have to pay all their earnings to the government in the form of dividends, except for minimal capital cushions. Meanwhile, all dividends for junior preferred shareholders have been suspended since September 2008. After trading at very low levels for several years, the common and preferred shares in GSE increased significantly during 2013 and interest among institutional investors has continued to grow. Fannie on Monday said once the March dividend payment is made, it will have paid the government total dividend of $117.2 billion, exceeding the size of the federal government's preferred effort. That's a return of over 100%, for an investment of less than five and a half years, but there is still no mechanism in place for either GSE to start buying back government-held preferred shares. Freddie Mac as of December 31 had paid $71.3 billion in dividends to the government, so it's a safe bet that Freddie's total dividend paid will exceed Uncle Sam's after Freddie pays his next dividend in March, following the company's fourth-quarter earnings announcement. More investors who have junior preferred or common shares - the highest profile is Bruce Berkowitz of Funds - have sued the government and have tried to push a settlement that will either allow the GSE to continue operating, or at least leave some value for non-government investors if the GSEs are wound up. Before their bailout agreements with the Treasury were changed, Fannie and Freddie were required to pay annual dividends of 10% on the government's senior preferred shares. Rafferty Capital Markets analyst Richard Bove believes that since the bailout deal was changed in August 2012, after the GSEs had returned to profitability, and after they had stopped taking draws from the Treasury, the changes to the bailout deal were unnecessary. At the time, Treasury and the Federal Housing Finance Agency traded for a reason only, Bove wrote in a note to clients on Monday. That reason was to prevent shareholders from sharing in profits that these entities knew were coming, Bove added. Looking ahead, it's hard to predict what lies ahead for Fannie and Freddie. Politicians in Washington for years have said GSEs should go out of existence. Then again, neither Congress nor President Obama has wanted to jeopardize the recovery of the U.S. housing market, by replacing the entities that buy nearly all newly stuttered mortgages. The government will also lose a major source of income if Fannie and Freddie are wound up. Berkowitz has proposed a solution that would bring in additional private capital to keep Fannie and Freddie running, and there is even hope in Congress for private investors, as evidenced by comments from Senators Bob Corker (R., Tenn.) and Mark Warner (D., Va.), during a Financial Services Roundtable meeting in January. The government is seeking to have Berkowitz's suit thrown out. If they get away with this trick Fannie Mae's stock will plummet to zero. If they don't, the stock has a very bright future, Bove wrote.-- Written by Philip van Doorn in Jupiter, Fla.'Too Big to Fail' Gets Yet BiggerStop Being Allergic to SavingFollow @PhilipvanDoorn Philip W. van Doorn is a member of TheStreet's banking and finance team, commenting on industry and regulatory trends. He previously served as senior analyst for TheStreet.com Ratings, which is responsible for assigning financial strength ratings to banks and savings and loan institutions. Mr. van Doorn previously served as a loan operations officer at Riverside National Bank in Fort Pierce, Fla., and as a credit analyst at the Federal Home Loan Bank of New York, where he oversaw banks in New York, New Jersey and Puerto Rico. Mr. van Doorn has additional experience in the mutual fund and computer software industries. He holds a bachelor's degree in business administration from Long Island University. If you currently own a home and want to buy

a new one, you may be surprised at how complicated the process is. If you sell your current home before buying a new home, you may find yourself temporarily between homes. If you want to buy a home first, you must comply with the guidelines of your lender. If you need or want to rent out your current home, things get even more complicated. The Federal National Mortgage Association (FNMA), better known as Fannie Mae, provides financing for many conventional mortgages. Fannie Mae has requirements you must meet to qualify for a new mortgage if you plan to rent out your current home. Fannie Mae and Freddie Mac define a departure residence as the home currently owned and stayed in by the borrower looking to mortgage a new home. Borrowers who currently own a home typically have three options when they decide to buy a new principal residence. They can: Sell the current home and pay the outstanding mortgageConvert the property into a second home, provided they can qualify for both the existing and new mortgage repayments Reassurance the property to an investment property and provide evidence that they will rent the property and use the proceeds to offset the mortgage payment In July 2008, both Fannie and Freddie substantially tightened underwriting guidelines regarding the departure of homes due to the financial crisis. In June 2015, they finally relaxed these restrictions. The sometimes overbearing departure guidelines were introduced at the height of the financial crisis and were supposed to be of a temporary nature, despite the fact that they lasted for more than six years. The purpose of this policy had been to ensure that borrowers have sufficient capacity and financial reserves to manage multiple properties successfully. In July 2008, Fannie Mae set out these underwriting guidelines regarding homeowners buying additional properties: They will need to control 30% equity in their current home. This mitigates concerns that they may consider a strategic standard on the old home. An Automated Valuation Module (AVM) or valuation will be necessary to prove their equity position. Rental income must be documented with a fully implemented lease agreement. The lease can be month-to-month. The lender will require a copy of the deposit and proof of deposit. Rental income from a family member or person with an established relationship with the borrower is not allowed.75% of the verified rental income can be used to offset housing expenses. In particular, the requirement of 30% equity was difficult for homeowners to meet. Today's departure guidelines are considerably more relaxed than they were in the wake of the financial crisis. The requirement for 30% equity is gone. If you sell your current residence but the sale has not been completed, the principal, interest, taxes, insurance and association fees of the current residence (known as PITIA) do not count against you if you provide documentation. You will need to provide your lender with an executed sales contract and confirmation that any funding contingencies have been cleared to qualify. When it comes to rental income from your departure Fannie Mae demands that you you documentation in the form of a lease or tax return and the filling in of the relevant forms. You can use the rental income to offset the costs associated with your graduate home so that these costs don't count towards you when you buy a new home. Fannie Mae wants to make sure you have enough income to handle your mortgage. If you have a tenant lined up, along with a signed rental agreement, you should be in good shape. The 2015 changes significantly simplified things for many would-be homebuyers. You have a little more flexibility and a few more options than you would have had immediately after the financial crisis. Crisis.

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