

# U.S. Structured Finance Newsletter

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## DEED FOR LEASE PROGRAM

On November 5, 2009, Fannie Mae introduced the Deed-for-Lease Program (D4L), a program designed to minimize family displacement, deterioration of neighborhoods caused by vandalism and theft to vacant homes, and the effect these have on families, communities and home price stabilization. D4L allows qualifying borrowers of properties transferred through deed-in-lieu of foreclosure (DIL) to remain in their home and community by executing a lease of up to 12 months in conjunction with a DIL. Investment properties that are tenant-occupied may also be considered as long as the borrower is cooperative in providing information from the tenant to facilitate the D4L transaction.

To qualify for D4L, the occupant of the property must have the ability to pay market rent not to exceed 31% of his or her monthly gross income, in addition to meeting the following eligibility criteria:

- The mortgage loan is a first lien mortgage loan secured by a one- to four-unit property.
- The borrower resides in the property as a primary residence or has leased the property to a tenant who uses the property as a primary residence.
- At least three payments have been made since origination or since the last modification.
- The borrower is not 12 or more payments past due on the mortgage loan.
- The borrower is not involved in an active bankruptcy proceeding and is not a party to litigation involving the subject property or the mortgage loan.
- Marketable title is able to be conveyed.
- If there are subordinate liens secured against the subject, lien releases can be obtained.
- The occupant of the property (i.e., the borrower or the borrower's tenant) has verifiable income.
- The occupant agrees to be responsible for regular maintenance, to keep the property in good condition, and to permit marketing of the property for sale.

Currently, some non-conforming servicers have been offering rent-to-own programs where the servicer rents the REO property to a potential buyer at an above-market rent. The renter (potential buyer) places 5% to 10% of the purchase price into a reserve account to lock in the option to buy. The difference between the actual market rent and the renter's monthly payment is added to the reserve account, which is used as a down payment on the property in one or two years. However, with foreclosure inventories growing and timelines for REO sales lengthening, servicers continue to look for creative ways to dispose of these homes. As a result, DBRS expects that we will soon see the D4L program utilized in the non-conforming residential mortgage market.

DBRS believes that, with current REO timelines averaging one to two years and the maintenance costs on these properties mounting (due to winterization, mowing the lawn, preventing vandalism, etc.), programs that allow the house to be occupied by someone who cares about how it is being maintained will likely increase the property value when it is ultimately sold. In addition, renting REO properties will help borrowers who are unable to get a mortgage in the current credit environment as well as offset future losses for security holders.

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