

STUDENT LOANS: Qualifying Borrowers with Student Loan Debt

Conventional

Fannie Mae

For all student loans, whether deferred, in forbearance, or in repayment, when a monthly payment greater than zero is provided on the credit report, we may use this amount for qualifying.

If no payment is provided, or the payment amount is zero, we must calculate a qualifying monthly payment using one of the options below:

- 1% of the outstanding balance, or
- A fully amortizing payment using documented loan repayment terms.

When a borrower is on a documented income-based repayment plan (IBR) and the payment amount on the credit report is zero, we may use this amount for qualifying. Documentation to support the IBR must be provided.

For a borrower whose student loans are in deferment or forbearance, when there is no payment listed on credit, or the payment amount is zero, we must use 1% of the outstanding balance or the fully amortizing payment using documented loan repayment terms.

Freddie Mac

For all student loans, whether deferred, in forbearance, or in repayment, when a monthly payment greater than zero is provided on the credit report, we may use this amount for qualifying.

If no payment is provided, or the payment amount is zero, we must calculate a qualifying monthly payment using 0.5% of the outstanding balance as reported on the credit report.

Student loan forgiveness, cancelation, discharge and employment-contingent repayment programs:

The student loan payment may be excluded from the monthly DTI ratio provided the Mortgage file contains documentation that indicates the following:

- The student loan has ten or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, or
- The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid at the end of the deferment or forbearance period

AND

- The Borrower currently meets the requirements for the student loan forgiveness, cancelation, discharge or employment-contingent repayment program, as applicable, and the Seller is not aware of any circumstances that will make the Borrower ineligible in the future.

Note: *In order to exclude the monthly student loan payment from the DTI ratio, we must have documentation to verify the borrower is eligible or approved for the student loan forgiveness, cancelation, discharge, or employment contingent repayment program. Evidence of the eligibility or approval must come from the student loan program or the employer, as applicable.*



FHA

For outstanding Student Loans, regardless of payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

USDA

A borrower must qualify with a monthly payment for all student loan debts, regardless of whether the student loan is deferred, in forbearance, or in repayment.

Fixed payment loans: A permanent amortized, fixed payment may be used in the debt ratio when we retain documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed.

Non-fixed payment loans: Payments for deferred loans, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed cannot be used in the total debt ratio calculation. The higher of one-half percent (.50%) of the loan balance or the actual payment reflected on the credit report must be used as the monthly payment. No additional documentation is required.

VA

When a student loan is currently in deferment and the payment will be deferred for a period of at least twelve months outside of the closing date, the student loan payment may be excluded from the qualifying ratios.

When a student loan is in repayment (including IBR), or scheduled to begin repayment within 12 months from the date of the VA loan closing, we must consider the anticipated monthly obligation in the loan analysis and utilize the payment as established below.

First, we must determine the threshold payment calculation by calculating each loan at a rate of 5% of the outstanding balance divided by 12 months. Example: \$25,000 student loan balance x 5% = \$1,250 divided by 12 months = \$104.17 per month. This will be the payment amount used for debt ratio purposes except when the following applies:

1. We must use the payment reported on the credit report for each student loan if the reported payment is greater than the threshold payment calculation.
2. If the payment reported on the credit report is less than the threshold payment calculation above, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and

payment information for each student loan. The statement(s) must be dated within 60 days of the VA loan closing. An updated credit supplement should be added to the file.

**Keep in mind! FORBEARANCE is when the borrower has filed a hardship – at times high risk/low score borrowers may need to meet additional criteria in order to exclude these obligations.*