



Student Loan Debt: How it Affects Qualifying for a Mortgage

August 24, 2022

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Question & Answer Session

- Q&A session to follow presentation.
- Please use the Q&A tab to submit your questions.
- Unanswered questions? Send email to:
housing.counseling@hud.gov, with “Student Loans”
in Subject line.



Introduction

Terry Carr

Senior Policy Advisor
Office of the Deputy Assistant Secretary
Office of Housing Counseling

About Today's Webinar

In this webinar, you will learn how student loan payments, outstanding balances and the current payment pause impacts underwriting.



Opening Remarks


Ashley Harrington, Senior Advisor

U.S Department of Education
Federal Student Aid



Student Loan Debt: How it Affects Qualifying for a Mortgage

Kevin Stevens, Acting Director,
Single Family Program Development
Federal Housing Administration





U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
SINGLE FAMILY HOUSING



2022 Student Loan Debt Calculation for Housing Counselors

August 24, 2022

Last Updated: August 10, 2022

Presented by:
Kevin Stevens
Acting Director
Single Family Program Development



OFFICE OF SINGLE FAMILY HOUSING



Disclaimer

The purpose of this presentation is to provide an overview and summation of Federal Housing Administration (FHA) policy. It introduces and explains official policy issued in Department of Housing and Urban Development (HUD) Handbooks and Mortgagee Letters.

The content of this presentation contains new guidance on student loan in HB 4000.1 Sections II.A.4.b.iv(H) and II.A.5.a.iv(G) as first issued in Mortgagee Letter 2021-13 on June 17, 2021 and amended in a Handbook update on July 20, 2021.

If you find a discrepancy between the presentation and Handbook, Mortgagee Letters, etc., the official policies prevail. Please note the information provided in this training is subject to change. Please consult HUD Handbooks and Mortgagee Letters through HUDClips for the most recent updates and current policy.



Student Loans- Debt Calculation

- For outstanding Student Loans, **regardless of the 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.
- Exception: Where a student loan payment has been suspended in accordance with COVID-19 emergency relief, the Mortgagee may use the payment amount reported on the credit report or the actual documented payment prior to suspension, when that payment amount is above \$0.

Student Loans – Required Documentation

- 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.

Case Study #1

Credit report reflects	Balance of \$60,000.00	Payment of \$275
No further documentation of payment		
Using .5% per Handbook 4000.1	Balance of \$60,000.00	Payment of \$300
Based on the payments reflected above which payment would be used?		

Case Study #2

Credit report reflects	Balance of \$60,000.00	Payment of \$357
Written documentation from lender reflecting the actual documented monthly payment.	Balance of \$60,000.00	Payment of \$225
Using .5% per Handbook 4000.1	Balance of \$60,000.00	Payment of \$300

Based on the payments reflected above which payment would be used?

Case Study #3

Credit report reflects	Balance of \$60,000.00	Payment of \$0 (Suspended)
Written documentation from lender reflecting the actual documented monthly payment. (Prior to Suspension)	Balance of \$60,000.00	Payment of \$175
Using .5% per 4000.1	Balance of \$60,000.00	Payment of \$300

Based on the payments reflected above which payment would be used?

Case Study #4

Credit report reflects	Balance of \$60,000.00	Payment of \$0
No further documentation of payment		
Using .5% per Handbook 4000.1	Balance of \$60,000.00	Payment of \$300
Based on the payments reflected above which payment would be used?		

Helpful Links

- SF Handbook Information:

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1

- Upcoming Single Family Housing Events and Training :

https://www.hud.gov/program_offices/housing/sfh/events

- Subscribe to FHA INFO:

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe



FHA Resource Center

Option	Point of Contact	Hours Available	Comments
1 FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2 Email	answers@hud.gov	24/7/365	
3 Telephone	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.

FHA INFO emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe





Student Loan Debt: How it Affects Qualifying for a Mortgage

Angela Burns, Single Family - Risk
Management - Lead Associate

Fannie Mae





Fannie Mae: Mortgage Underwriting and Student Loans

Presented by Angela Burns, SF Risk Management Lead Associate

August 2022

Disclaimer (Fannie Mae)

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Student Loan Debt By Repayment Status

Depending on the borrower's personal circumstances, their student loan will fall into different types of repayment structures.

Fannie Mae addresses: standard repayment, income-driven repayment, deferred or in forbearance in Selling Guide Section B3-6-05, Monthly Debt Obligations describes how to determine the appropriate qualifying payment.

Standard Repayment

The lender may use the reported payment from the credit report to qualify the borrower.

Income-Driven Repayment Plan

- The lender may obtain student loan documentation to verify the currently required monthly payment, or
- Calculate a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment)

Deferred or in Forbearance

The lender may calculate

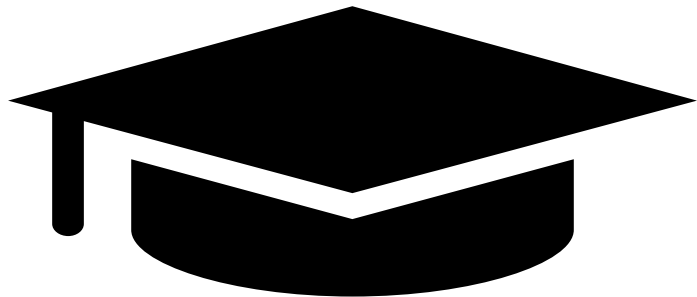
- a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
- a fully amortizing payment using the documented loan repayment terms.



Scenario 1: Standard Student Loan Repayment

John has a payment of \$150 per month with a balance of \$5,000

- The \$150 payment per month can be used as the monthly qualifying payment since that is the payment reflected on their credit report.



Note: If it is determined the reported payment is not accurate, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.



Scenario 2: Income-Driven Repayment Plan

Example:

Jane has a loan with a balance of \$4,000.

The reported payment is \$0



The lender must determine a qualifying payment.



The borrower provided student loan documentation verifying the loan is on an income-driven payment plan that currently requires a payment of \$0 per month.



The lender may now qualify the borrower with a \$0 payment. (Note: The lender has the option to calculate an estimated payment by using 1% of the outstanding balance for qualification which in the example equates to \$40)



Scenario #3: Student Loans Deferred or in Forbearance

For deferred loan or loans in forbearance, the lender has two options to calculate a qualifying payment:

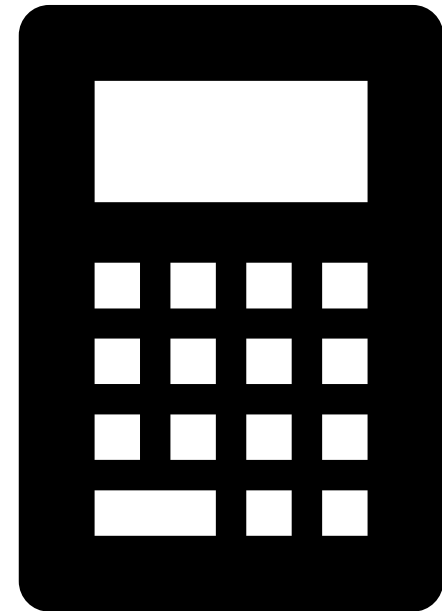
1

Calculate an estimated payment by using 1% of the outstanding balances

Example: A deferred student loan has a balance of \$17,500. The lender may qualify the borrower with a payment of \$175.

2

Calculate a fully amortizing payment using the documented loan repayment terms.



For scenarios 2 & 3, if the student loan repayment terms are unknown there is one alternative manual calculation a lender can use to determine an estimated qualifying payment

This is found in the Top Trending Selling FAQs found on FannieMae.com (Q1 Under Student Loan Payments)

Calculate a fully amortizing payment based on the current prevailing student loan interest rate which can be found on a variety of websites such as US Department of Education Federal Student Aid.

See next slide for an example.



Calculating An Amortizing Payment Using The Current Prevailing Student Loan Rate When The Repayment Terms Are Unknown

Example: Jack has a loan that does not reflect a payment with a balance of \$17,500, it is in deferral and the repayment terms are unknown.

Calculating a Student Loan Repayment	
Total outstanding balance of all student loans	Repayment period
\$1 – \$7,499	10 years
\$7,500 – \$9,999	12 years
\$10,000 – \$19,999	15 years
\$20,000 – \$39,999	20 years
\$40,000 – \$59,999	25 years
\$60,000	30 years



Outstanding Balance: **\$17,500**

Repayment period: **15 Years**

Current Prevailing Interest Rate: **4.29%**

Monthly Amortizing Payment: **\$132**



Student Loan Resources: FannieMae.com



SELLING GUIDE: MONTHLY DEBT
OBLIGATIONS B3-6-05

[https://selling-
guide.fanniemae.com/1032996291](https://selling-guide.fanniemae.com/1032996291)



TOP TRENDING SELLING FAQS

[https://singlefamily.fanniemae.com/faq-
top-trending-selling-faqs](https://singlefamily.fanniemae.com/faq-top-trending-selling-faqs)



Student Loan Debt: How it Affects Qualifying for a Mortgage

Jim Peronto, Training Manager, Client
Education Services

Freddie Mac



Student Loan Payments

Freddie Mac's monthly debt
payment-to-income ratio

	<p>Facilitator: Jim Peronto Training Manager Client Education Services</p>
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August 2022



Guide Section 5401.2(a)

Student loans in repayment, deferment or forbearance:



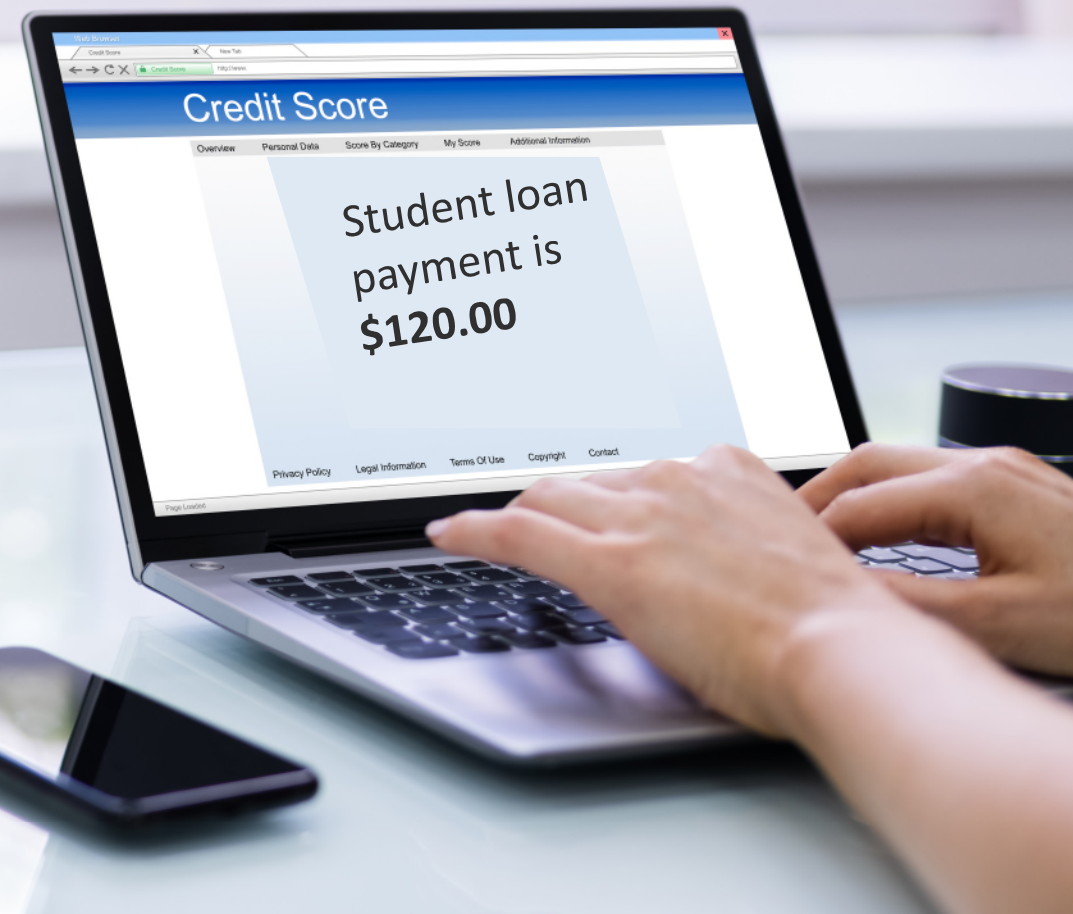
If the monthly payment is greater than zero...

Use the monthly payment amount reported:

Credit report

OR

File documentation



Student loans in repayment, deferment or forbearance:



If the monthly payment reported on the credit report is zero...

Use **0.5%** of the
outstanding loan
balance, as
reported on the
credit report



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



The student loan payment may be excluded from the monthly debt payment-to-income ratio provided the mortgage file contains documentation that indicates:

1

The student loan has **10 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.



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



The student loan payment may be excluded from the monthly debt payment-to-income ratio provided the mortgage file contains documentation that indicates:

2

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.



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



The student loan payment may be excluded from the monthly debt payment-to-income ratio provided the mortgage file contains documentation that indicates:

Option 1

OR

AND



Option 2

The borrower is eligible or approved¹, as applicable, for the student loan forgiveness, cancelation, discharge or employment-contingent repayment program, and the seller is not aware of any circumstances that will make the borrower ineligible in the future.

¹ Must come from the student loan program or the employer, as applicable.

Scenarios:

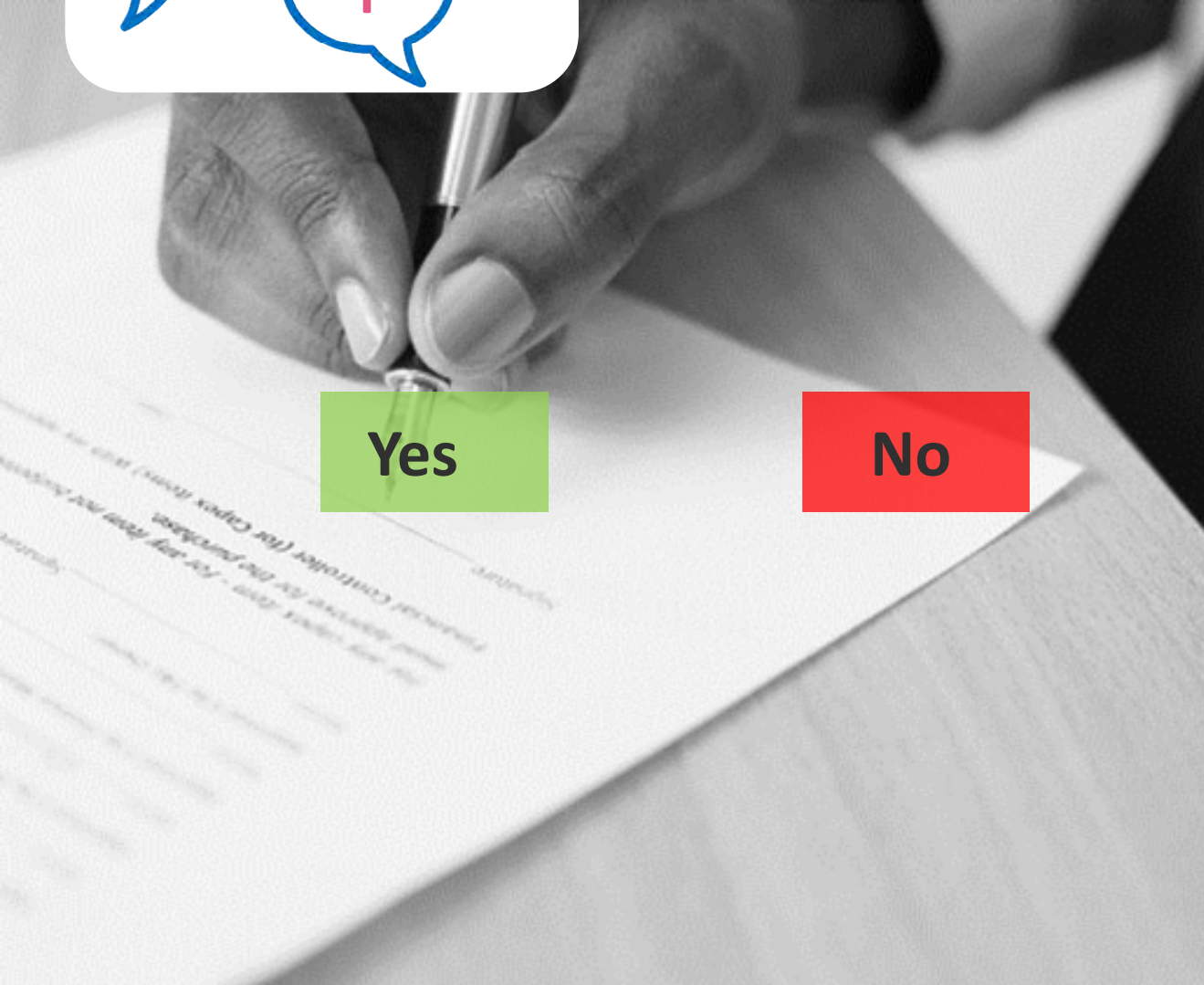
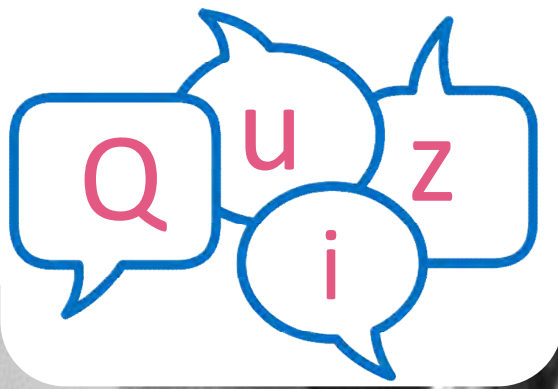
1

Fred Macie has a student loan reporting on his credit report with an outstanding balance of \$25,000 and a \$120 monthly payment. The \$120 monthly payment will be used in the monthly debt to payment-to-income ratio.

2

Mac Fredrickson has a student loan reflected on his credit report with an outstanding balance of \$25,000 and no monthly payment reported. The monthly payment of \$125, which is 0.5% of the outstanding principal balance, will be used in the monthly debt to payment-to-income ratio.





Yes

No

Will Freddie Mac accept an income based repayment (IBR) plan for a student loan?

Yes. The borrower may have student loan debt in an IBR plan.

If the payment reported on the credit report is zero:

- You may obtain an IBR plan verifying a payment greater than zero, or
- Use **0.5%** of the outstanding loan balance, as reported on the credit report.

Note: A payment of zero must not be used for qualification



Freddie Mac Wrap up



COVID-19 Selling FAQ
Webpage



Freddie Mac Learning
Catalog



Questions and Answers

Please use the Q&A tab to submit your questions.

Contact the Office of Housing Counseling



- Find us at: hudexchange.info/counseling
- Email HUD's OHC: housing.counseling@hud.gov
- [The Bridge Newsletter](#)

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