



ASSISTANT SECRETARY FOR HOUSING
FEDERAL HOUSING COMMISSIONER

Date: June 17, 2021

Mortgagee Letter 2021-13

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All HUD-Approved Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Student Loan Payment Calculation of Monthly Obligation

Purpose This Mortgagee Letter (ML) informs Mortgagees of new student loan calculation requirements of the monthly payment obligation, to align better with the current industry standards.

Effective Date This guidance is effective for all case numbers assigned on or after August 16, 2021. However, Mortgagees may begin using the policies announced in this ML immediately.

All policy updates will be incorporated into a forthcoming update of HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1) and amend the HECM Financial Assessment and Property Charge Guide.

Public Feedback The U.S. Department of Housing and Urban Development (HUD) welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to the Federal Housing Administration (FHA) Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.

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Affected Programs

This guidance applies to all FHA Title II HECM and forward mortgage programs except non-credit qualifying streamline refinances, which do not require evaluation of the Borrower's debts.

Background

Prior to the publication of Handbook 4000.1, FHA policies did not address how Mortgagees should calculate future payments of deferred student loan debt which, once due, could negatively impact a Borrower's long-term ability to repay their Mortgage and other monthly obligations. Further, FHA policy did not distinguish between non-deferred student loans that are part of a repayment plan that does not fully amortize the student loan debt from other Installment Loan debt.

With the publication of Handbook 4000.1, FHA required a Mortgagee to calculate the monthly payment for deferred student loans at 2 percent of the outstanding balance and include that payment amount in the Borrower's Debt-to-Income (DTI) ratio for qualification purposes.

In April 2016 and July 2016, FHA published ML 2016-08 and ML 2016-10 respectively, adding a separate "Student Loans" section in Handbook 4000.1, and in the HECM Financial Assessment and Property Charge Guide amending the payment calculation to:

- either the greater of:
 - 1 percent of the outstanding balance on the loan; or
 - the monthly payment reported on the Borrower's credit report; or
- the actual documented payment, provided the payment will fully amortize the loan over its term.

In recognition of the expanding student loan payment plan alternatives offered by the U.S. Department of Education, including plans with variable amortization schedules based upon Borrower's income, HUD is adjusting the policy options available for calculating the monthly obligation of student loan liabilities. These changes seek to further HUD's mission of providing access to credit, while ensuring Borrowers maintain a long-term ability to repay their debt.

Summary of Changes

The Required Documentation and Calculation of Monthly Obligation sections of HUD's current student loan policies are being revised to allow for an alternative payment option. These changes will be reflected in the following HUD policy references: HUD Handbook 4000.1 sections II.A.4.b.iv(H) Student Loans (TOTAL) and II.A.5.a.iv(G) Student Loans (Manual), and HECM Financial Assessment and Property Charge Guide section 3.83 Student Loans.

Single Family
Housing Policy
Handbook
4000.1

II.A.4.b.iv(H) Student Loans (TOTAL)

(1) Definition

Student Loans refers to liabilities incurred for educational purposes.

(2) Standard

The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

(3) 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.

(4) Calculation of Monthly Obligation

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.

II.A.5.a.iv(G) Student Loans (Manual)

(1) Definition

Student Loan refers to liabilities incurred for educational purposes.

(2) Standard

The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

(3) 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 amount from the 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.

(4) Calculation of Monthly Obligation

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.

**HECM
Financial
Assessment
and Property
Charge Guide**

**3.83 Student
Loans**

Student loan refers to liabilities incurred for educational purposes. The mortgagee must include all student loans in the expense analysis, regardless of the payment type or status of payments.

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.

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.

The Mortgagee may exclude the payment amount from the 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.

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Paperwork Reduction Act

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Number 2502-0059 and 2502-0524. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

Questions

Any questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALL-FHA. Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339. For additional information on this ML, please visit www.hud.gov/answers.

Signature

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