



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: April 13, 2016

To: All FHA Approved Mortgagees

Mortgagee Letter 2016-08

Subject Student Loans

Purpose The purpose of this Mortgagee Letter (ML) is to provide guidance on calculating student loan payments.

Effective Date This guidance is effective for all case numbers assigned on or after June 30, 2016; however, Mortgagees may begin using the policy in this ML immediately. All revisions will be incorporated into HUD's Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1) on June 30, 2016.

Affected Programs This guidance applies to all FHA Title II forward mortgage programs with the exception of non-credit qualifying streamline refinances.

Affected Topics This guidance will affect Handbook 4000.1 sections II.A.4, *Underwriting the Borrower Using TOTAL Mortgage Scorecard* and II.A.5, *Manual Underwriting of the Borrower*. This policy will be implemented in Handbook 4000.1 under its own sub-heading in the *Evaluating Liabilities and Debts* sections II.A.4.b.iv and II.A.5.a.iv and will no longer be combined with guidance under the sub-heading of *Deferred Obligations* and *Installment Loans*. This ML provides documentation requirements and the standard for calculating monthly obligations for all student loans, regardless of payment type or status of payments.

The new *Student Loans* sections of Handbook 4000.1, II.A.4.b.iv.(H) (TOTAL) and II.A.5.a.iv.(G) (Manual), were previously labeled as *Installment Loans*. *Installment Loans* will be re-designated as II.A.4.b.iv.(I) (TOTAL) and II.A.5.a.iv.(H) (Manual), with all subsequent sections from *Revolving Charge Accounts* to *Obligations Not Considered Debt* being re-designated as II.A.4.b.iv.(J) to (Q) in TOTAL, and II.A.5.a.iv.(I) to (R) in Manual.

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Background With the implementation of Handbook 4000.1, FHA required Mortgagees to calculate a monthly payment for deferred Student Loans using 2 percent of the outstanding balance, and include the payment in the Borrower's Debt-to-Income ratio for qualification purposes. Further, FHA policy currently does not differentiate between non-deferred Student Loans, which are in payment plans that do not fully amortize the loan, and other Installment Loan debt.

In furthering HUD's mission of providing access to credit while ensuring Borrowers maintain a long term ability to repay their debt, the payment calculations for Student Loans, regardless of deferral status, are being amended.

Summary of Changes The *Deferred Obligations* and *Installment Loans* sections for TOTAL and Manual are amended to exclude Student Loans. A new section for Student Loans is being added and the following changes will be incorporated into Handbook 4000.1.

HUD Single Family Housing Policy Handbook 4000.1 **Deferred Obligations** (II.A.4.b.iv.(G) (TOTAL) and II.A.5.a.iv.(F) (Manual))

(1) Definition
Deferred obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

(2) Standard
The Mortgagee must include deferred obligations in the Borrower's liabilities.

(3) Required Documentation
The Mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Mortgagee must obtain evidence of the actual monthly payment obligation, if available.

(4) Calculation of Monthly Obligation
The Mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available. If the actual monthly payment is not available for installment debt, the Mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

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Student Loans (II.A.4.b.iv.(H) (TOTAL) and II.A.5.a.iv.(G) (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 1 percent of the outstanding balance reported on the Borrower's credit report, and
- 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.

(4) Calculation of Monthly Obligation

Regardless of the payment status, the Mortgagee must use 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.

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Installment Loans (II.A.4.b.iv.(I) (TOTAL))

(1) Definition

Installment Loans **(excluding Student Loans)** refer to loans not secured by real estate that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

The Mortgagee must include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the Borrower's liabilities. If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into TOTAL Mortgage Scorecard.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment. If the credit report, loan agreement, or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the *Deferred Obligations* section.

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Installment Loans (II.A.5.a.iv.(H) (Manual))

(1) Definition

Installment Loans **(excluding Student Loans)** refer to loans not secured by real estate that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

The Mortgagee must include the monthly payment shown on the credit report, loan agreement, or payment statement to calculate the Borrower's liabilities. If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment. If the credit report, loan agreement, or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the *Deferred Obligations* section.

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Questions

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Signature

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