STUDENT LOANS OFFERING
Your Guide to Qualifying Borrowers with Student Loans

The standard repayment plan for federal student loans puts borrowers on a 10-year track to pay off their debt, but research has shown the average bachelor's degree holder takes 21 years to pay off his or her loans. This means that a large percentage of homebuyers – especially first-time buyers – will be on a student loan repayment schedule that may include a deferment.

The chart below compares the different underwriting guidelines for conventional, government-insured and Caliber Portfolio loans. One major advantage of Portfolio loans is that student debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe.

● Conventional/FNMA

Lender must include a monthly payment in the borrower's recurring monthly debt obligation, using one of the four options below to determine this amount:

a) 1% of the outstanding balance;
b) the actual payment that will fully amortize the loan(s);
c) a calculated payment that will fully amortize the loan(s) based on the documented loan repayment terms.
d) Loans that are deferred or in forbearance with no documentation require that 1% of the balance be considered when qualifying.
e) If the borrower is on an income-driven payment plan, obtain student loan documentation to verify the actual monthly payment is $0 to qualify the borrower with a $0 payment. (FNMA only)

● FHA

If the payment used for the monthly obligation is less than 1% of the outstanding balance reported on the credit report, and less than the monthly payment on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, payment status, and evidence of the outstanding balance and terms from the creditor.

Regardless of the payment status, the lender must use either the greater of:
1) 1% of the outstanding balance on the loan;
2) the monthly payment reported on the Borrower's credit report; or
3) the actual documented payment, provided the payment will fully amortize the loan over its term.

● VA

If a student loan is in repayment or scheduled to begin within 12 months from the date of VA loan closing, must consider the anticipated monthly obligation in the loan analysis. Should use the greater of:
1) Calculated payment at a rate of 5 percent of the outstanding balance divided by 12 months (example: $25,000 student loan balance x 5% = $1,250 divided by 12 months = $104.17); or
2) Payment reported on credit report.

● USDA

A fixed payment may be used in the debt ratio when the lender retains documentation to verify the payment, interest rate and repayment term are fixed. There must be no future adjustments to the terms of the student loan payments.

  ● 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. 1% of the loan balance reflected on the credit report must be used as the monthly payment.

● Caliber Portfolio

Debt payments, such as a student loan scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the lender as anticipated monthly obligations during the underwriting analysis. Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe. Balloon-payment notes that come due within one year of loan closing must be considered.

Exclusions: Student loan payments may be excluded with written evidence that the debt will be deferred for a period outside the 12 month timeframe. The Underwriter should determine the repayment amount based on the actual documented payment. If the borrower is following an income-driven repayment plan ("IDR"), the Lender must use the IDR plan monthly payment amount.

For more information, please contact me.