

## STUDENT LOAN CALCULATION EXAMPLE

Freddie Mac Student Loan Guidelines:

### **(i) Student loans**

#### **(A) Student loans in repayment, deferment or forbearance**

For student loans in repayment, deferment or forbearance:

- If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or
- If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding loan balance, as reported on the credit report

#### **(B) Student loan 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 the following:

- 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, 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 is eligible or approved, 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. Evidence of eligibility or approval must come from the student loan program or the employer, as applicable.

If the credit report has a payment greater than zero (0), then use that payment amount.

If the credit report has a zero (0) payment for the student loans, then Freddie Mac requires the lender to use 0.5% of the outstanding loan balance.

For example, if a borrower has \$24,729 in outstanding student loan debt, you would take  $\$24,729 \times 0.5\% = \$123.65$ . The lender would include a student loan monthly payment of \$123.65 in the debt ratio.

Also, student loans on credit reports tend to be listed separately, compared to the documentation the borrower receives from the student loan company. The lender would take each amount, such as, \$3,200; \$2,900; \$3,450, etc. and multiply each one by 0.50%. In this case, \$16.00; \$14.50 & \$17.25 respectively.

In order to use the zero payment, the requirement is to be on the income based repayment plan and have employment that qualifies for the forgiveness OR be 10 months or less from being paid off.

**HUD Single  
Family  
Housing  
Policy  
Handbook  
4000.1  
(continued)**

---

**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.

---

*Continued on next page*

FHA is different than Freddie Mac.

It is the greater of the amount on the credit report/actual documented payment or 1% of the outstanding balance of the student loan.

For example, if there is \$14,000 in outstanding student loan debt, 1% of this would be \$140.00. You take  $\$14,000 \times 1\% = \$140.00$ .

If the credit report says the monthly payment is \$90.00; \$140.00 is higher than the amount on the credit report so FHA guidelines would require \$140.00 to be used.

In the same scenario, if the credit report said \$150 monthly student loan payment, then \$150 would be used in the debt ratio calculation because it is greater than the 1% amount of \$140.