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Freddie Changes Student Loan Debt Calculation

A new Bulletin from Freddie Mac makes several changes to its *Seller Guide.* The most impactful changes relate to the way sellers can calculate student loan debt for **inclusion in the monthly payment** debt-to-income ratio.

Under the current policy, when a seller cannot provide the monthly payment required on a student debt from information on the borrower's credit report, it must obtain other documentation with that information to include in the monthly DTI ratio. The new guideline allows the seller to use credit report information where available, but lacking that, to assume the monthly payment is 0.5 percent of either the original loan balance or the current balance, **whichever is greater.**

Freddie Mac says traditional student loan repayment plans provided for fully amortizing monthly payments and were typically reported by credit bureaus. However, income driven repayment plays that are subject to annual recertification of the monthly payment amount are becoming more prevalent.

Allowing use of the 0.5 percent calculation reduces the risk of potential payment shock if a payment increases after the annual recertification. The borrower, however still has the **benefit of using a lower payment** amount than would be required under the traditional fully amortizing repayment plan.

Where a student loan is in deferment or forbearance and no information is available from the credit report or mortgage file indicting the anticipated payment, the seller must currently assume 1 percent of the outstanding balance to calculate the DTI. The new rule allows the 1 percent calculation using either the loan balance or the outstanding balance, whichever is greater, where the credit report does not provide a payment amount.

No additional documentation will be needed from the borrower under these new guidelines.

Freddie Mac has also added new guidelines that will allow the seller to exclude student loan payments from the DTI ratio if there is documentation that indicates the student loan has ten or fewer monthly payments remaining until it is forgiven cancelled discharged or, in the case of an employment contingent repayment program, paid. The same exclusion applies if the borrower is eligible for such debt elimination and there is no reason to think

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/17

Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

it will not occur, or where the loan is currently in forbearance or deferred and will be expunged when that status ends.

		Value	Change
Builder Confidence	Mar	51	+6.25%

The company has also updated its requirements to permit installment, revolving and lease payments as well as mortgage payments to be **excluded from the DTI calculation** where another party has been making the payments on the debt for the most recent 12 months. The party making those payments will no longer be required as a cosigner or guarantor on the excluded debt.

The new requirements will be effective for mortgages with settlement dates on and after January 18, 2018, but sellers may implement the changes immediately if they wish.

Other issues addressed included in the new Bulletin (Number 2017-23) include technical changes to appraisal requirements, and pool maturity and issuance updates.