March 01. 2018 11:51PM

Student loans and your mortgage

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You may have heard of Fannie Mae and Freddie Mac. These are government-sponsored enterprises (GSE) that securitize your basic conventional mortgages.

Despite their many similarities, their guidance on how to qualify a borrower with student loans differ significantly. In addition to conventional GSEs, there are also government loan options such as FHA, Rural Housing and VA loans, which also offer different stances on how to qualify borrowers with outstanding student loans.

The repayment status of a buyer's student loan and the mortgage program selected will greatly affect how much the buyer qualifies for.

Income-based repayment

If a student loan is being repaid under an income-based repayment plan then Fannie Mae and/or VA guidelines will use the IBR payment as the monthly payment. Freddie Mac guidelines (just changed in Jan 2018) now require the lender to use a payment equal to 0.5 percent of the outstanding balance (or the actual payment; whichever is greater).

The least favorable underwriting is with FHA and RD loans, which require the lender to use a payment equal to 1 percent of the outstanding balance as the payment (when the loan is in an income-based repayment plan). This can make a huge difference on what a buyer can qualify for.

Deferred student loans

If a student loan is deferred, Fannie Mae, Freddie Mac, FHA and RD mortgage loans require the lender to use a payment equal to 1 percent of the outstanding balance as the payment. Fannie Mae will allow a calculated payment to be used if it can be documented via the loan terms what the fully amortizing fixed payment will be once the student loan comes out of deferment. VA mortgage loans say that if there is written evidence the student loan will be deferred at least 12 months beyond the date of closing, a monthly payment does not need to be considered.

If the student loan will come out of deferment in less than a year from closing, then the lender must calculate a payment by multiplying the balance of the student loan times 5 percent and divide by 12.

Loans paid by another

If a student loan was co-signed by another and it can be documented that the other person has made all payments in the past 12 months, then FHA says you can exclude the payment when qualifying the borrower. With Fannie Mae and Freddie Mac, the person making the payments does not need to be a co-signer on the loan but it must be documented that the other person has made all payments (on time) in the past 12 months.

Student loan forgiveness

The student loan can be excluded if the loan is currently in deferment or forbearance and the full balance of the student loan will be forgiven, canceled or discharged or if there is an employment-contingent repayment program paid at the end of the deferment or forbearance period.

The borrower must show they current meet the requirements for forgiveness or cancellation or employment repayment and there are no circumstances that will make the borrower ineligible in the future.

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