

August 3, 2020

The Honorable Dana T. Wade  
Assistant Secretary for Housing and Federal Housing Commissioner  
U.S. Department of Housing and Urban Development  
451 7<sup>th</sup> Street, SW  
Washington, DC 20410

**RE: Requested Changes to Borrower Student Loan Debt Calculation for FHA Underwriting**

Dear Commissioner Wade:

On behalf of the undersigned organizations, which represent a wide variety of housing market stakeholders, we wish to bring to your attention an important issue regarding the Federal Housing Administration's (FHA) guidelines for the calculation of student loan debt for borrowers actively participating in income-based, graduated, deferred, adjustable and forbearance repayment plans (collectively, "covered plans"). As further explained below, we are concerned that current FHA requirements may be disqualifying otherwise creditworthy borrowers by using a formulaic calculation in lieu of the actual monthly obligation that appears on the credit report. The use of this calculation often results in an artificially inflated debt-to-income (DTI) ratio that could cause many borrowers to become ineligible for FHA financing. As such, the undersigned organizations respectfully recommend that the Department of Housing and Urban Development (HUD) amend FHA's policy regarding the consideration of student loan debt obligations for borrowers who participate in covered plans consisting of a payment that does not fully amortize the debt.

As you know, under the current policy, borrowers who have enrolled in covered plans are only permitted to qualify using the contractually-obligated payment amount if the payment fully amortizes the student loan debt. Covered plans are attractive to borrowers who have taken out student loans to advance their earning potential but are unable to immediately afford a fully amortized monthly payment. While in some instances borrowers with significant student loan debt immediately earn incomes that can support a fully amortized payment, others utilize covered repayment plan options in order to gradually pay more over time as their income increases. Participation in these plans often requires borrowers to complete an annual certification that documents their current income. In some cases, student loan servicers use this information to determine the appropriate adjustment to the monthly obligation to ensure repayment of the student loan debt without creating unnecessary hardship for borrowers.

FHA's appropriate consideration of student loan debt during the qualification process is imperative to promote access to credit while also protecting borrowers, lenders, and the Mutual Mortgage Insurance Fund from potential risk. Currently, FHA presumes a monthly payment of 1 percent of the outstanding student loan balance if borrowers are actively participating in a repayment plan resulting in a monthly obligation that does not fully amortize the debt. While Fannie Mae, Freddie Mac, the Department of Veterans Affairs (VA) and the Department of Agriculture (USDA) qualify

borrowers using the actual monthly obligation or an alternative that is more closely aligned with a fully amortized payment calculation, FHA continues to assume a monthly payment of 1 percent of the outstanding balance – which is almost always larger than the actual payment being made by potential borrowers in both covered plans and fully amortized plans. This policy may be disqualifying creditworthy borrowers because of the inflated DTI ratios that it produces. As a result, many potential borrowers may have more limited financing options or may be unable to obtain mortgage credit entirely.

In order to more closely align with other government or government-sponsored enterprise policies, HUD should revise the FHA guidelines to allow for the use of the actual monthly student loan payment made by the borrower. Such a policy change would more accurately reflect the risk presented by the borrower while also improving access to credit. To incorporate this revision, the undersigned organizations recommend that HUD modify the FHA Single Family Housing Policy Handbook 4000.1 to reflect the following:

*“Regardless of repayment status, the mortgagee shall use the actual payment documented on the credit report to determine the qualifying monthly payment.”*

As an alternative, HUD could consider revising the FHA guidelines to reduce the 1 percent calculation to 0.5 percent of the outstanding student loan balance. Because HUD currently allows for the use of the fully amortized payment for borrowers who are not utilizing covered plans, it would be more reasonable to use a calculation that is more closely aligned to that of a fully amortized payment. The 0.5 percent calculation better achieves this result. To implement this revision, the undersigned organizations recommend that HUD modify the “Calculation of Monthly Debt” section of the FHA Single-Family Housing Policy Handbook 4000.1 to reflect the following:

*“If a borrower is currently in a Deferred, Income-Based, Graduated, Adjustable, or other type of repayment agreement that does not fully amortize the debt, the mortgagee must determine the qualifying monthly payment using the greater of:*

- *The payment documented on the credit report, or*
- *One-half percent (0.50%) of the outstanding balance documented on the credit report”.*

The undersigned organizations urge FHA to amend its policy regarding the student loan debt calculation and to issue any guidance and/or adopt regulatory or Handbook provisions that would permit the acceptance of the actual monthly payment obligation for borrowers actively participating in the aforementioned covered plans, or as an alternative, allow for the determination of the monthly payment to be based upon the greater of 0.5 percent of the outstanding student loan balance and the actual monthly payment. We note that both Fannie Mae and Freddie Mac, as well as VA and USDA, currently permit one or both such policies under their guidelines.

The FHA program serves to facilitate homeownership for millions of first-time and low- to moderate-income borrowers throughout the country. The undersigned organizations believe that

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FHA's acceptance of a more reasonable student loan debt calculation policy will remove unnecessary roadblocks that prevent FHA from fully carrying out this critical mission.

We thank you for considering this important issue and we are available to provide additional information or discuss further as needed.

Sincerely,

American Bankers Association

Asian Real Estate Association of America

Center for Responsible Lending

HomeFree-USA

Homeownership Council of America

Local Initiatives Support Corporation (LISC)

Manufactured Housing Institute

Mortgage Bankers Association

National Association of Affordable Housing Lenders

National Association of Federally-Insured Credit Unions

National Association of Home Builders

National Association of Local Housing Finance Agencies

National Association of Real Estate Brokers

National Association of REALTORS®

National Community Reinvestment Coalition (NCRC)

National Community Stabilization Trust

National Council of State Housing Agencies

National Housing Conference

National NeighborWorks Association