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Scenario Solutions

An example of a common question we receive:

What amount of student loan payments should be included in the debt-to-income?

Answer:

For outstanding student loans, regardless of the payment status, lenders must use:

- The payment amount reported on the credit report, or the actual documented payment, when the payment amount is above zero; or
- When the payment amount **is** zero, lenders must use one half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification.

If the student loans are paid by another party but are solely in the applicant's name, it remains the legal responsibility of the applicant and the payment amount must be included in the monthly debts. Additionally, if the student loan is in a "forgiveness" plan or program, it remains the legal responsibility of the applicant until they are released of liability from the creditor. The applicable payment must be included in the monthly debts. If ten or less months of repayment remains, the monthly debt may be excluded if the remaining balance does not exceed five percent of the monthly repayment income.

Refer to Chapter 11 of Handbook 1-3555, Section 11.2 for more information.

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