



BULLETIN

TO: Our Valued Clients

Date: November 3, 2017

SUBJECT: **Freddie Mac Selling Guide changes - BULLETIN 17-20**
Student loan calculations and contingent liabilities

***** IMPORTANT NOTICE *****

Freddie Mac has recently announced important changes to the Selling Guide. The changes include updated requirements to student loan payment calculations and also allows exclusion (under certain circumstances) for student loan debts that are subject to certain student loan forgiveness programs.

Freddie Mac has also updated their policies on contingent liabilities to align with Fannie Mae for payments made by another party. Changes are as follows:

Student Loan payment calculations:

For calculating the monthly DTI, use the **greater of:**

- The monthly payment reported on the credit report, or;
- 0.5% of the original loan balance or outstanding balance as reported on the credit report

The current payment may be used if documentation is provided verifying the current payment is fully amortizing.

These changes are effective with loan applications dated on or after November 6, 2017. Loans underwritten with LP findings under the current student loan guidelines must close and fund on or before December 31, 2017.

Student Loan forgiveness, cancellation programs

The student loan payment may be excluded from the monthly DTI ratio provided the Mortgage file contains documentation that indicates the following:

- The student loan has ten 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 currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and we are not aware of any circumstances that will make the Borrower ineligible in the future.

This change is effective immediately
Contingent liabilities

A contingent liability may be excluded from the monthly debt payment-to-income ratio when meeting the requirements below:

Debt Type	Eligibility and documentation requirements
<ul style="list-style-type: none"> • Installment (not including Mortgages) • Revolving • Monthly lease payment 	Documentation in the file must indicate the following: <ul style="list-style-type: none"> • A party other than the Borrower has been making timely payments for the most recent 12 months (regardless of whether the party is obligated on the debt) • The party making the payments is not an interested party to the subject real estate or Mortgage transaction
<p>Mortgage</p>	Documentation in the file must indicate the following: <ul style="list-style-type: none"> • A party other than the Borrower has been making timely payments for the most recent 12 months • The party making the payments is obligated on the Note for the Mortgage that is being excluded • The Borrower is not on title for the mortgaged property • The party making the payments is not an interested party to the subject real estate or Mortgage transaction

The lender must evaluate the validity of circumstances under which the payments are being made by another party. For example, payments on multiple student loans made by the Borrower’s parent represent a common situation. However, additional investigation and documentation might be necessary when a Borrower’s multiple installment and revolving debts are being paid by the Borrower’s spouse who is not on the subject Mortgage.

This change is effective immediately.

Thank you,
 Operations Group
Towne Family of Companies