

MHI Requests Changes to FHA Underwriting of Borrower Student Loan Debt Calculation

MHI joined a group of national housing organizations in [urging HUD](#) to change the Federal Housing Administration's (FHA) treatment of student loan debt in the mortgage qualification process. The group expressed concerns that FHA's 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"), may be disqualifying otherwise creditworthy borrowers by using a formulaic calculation in lieu of the actual monthly obligation that appears on the credit report.

Currently, FHA presumes one percent of a borrower's outstanding student loan balance as the monthly payment if the documented payment does not fully amortize the debt – a situation very common among those participating in income-based repayment programs. The letter argues 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.

In order to more closely align with other government or government-sponsored enterprise (GSEs) policies, the group is calling on HUD to 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. The group recommends that HUD align FHA standards with those of the GSEs and VA by allowing lenders to qualify borrowers using the actual payment that is documented on the credit report, or as an alternative, align FHA standards with those of USDA to reduce the 1 percent assumption to 0.5 percent. By amending FHA's policy to one of the above recommendations, the group argues it will create greater consistency among federal programs and remove an unnecessary roadblock that has prevented qualified borrowers from achieving homeownership.

This letter is part of MHI's larger effort to advocate for much-needed updates to FHA's Title I and Title II programs. We are telling the Administration and Congress that updating Title I and Title II to support greater access to financing for manufactured homes means greater access for American families in need of quality, durable affordable housing.

If you have any questions, please contact MHI's Advocacy and Communications Department at MHIgov@mfghome.org or 703-558-0675.