



Announcement 17-59

Date: December 6, 2017

Topic: Freddie Mac Bulletin 2017-23: Student Loan and Contingent Liability Calculation Update

For all LPA approved conventional loans, PennyMac is aligning with the updates announced in Freddie Mac Bulletin 2017-23, including but not limited to the changes below. Lenders may implement the changes earlier, however, loans using the current student loan and contingent liabilities guidelines must be delivered by December 29, 2017 and purchased by January 8, 2018. Loans delivered on or after December 30, 2017 must use the updated guidelines.

Student Loans

Freddie Mac updated and clarified guidance on calculating student loans based on the status of the student loan and if a payment is being reported. The new guidelines do not require Lenders to obtain documentation from the borrower. Please see the chart below, and the Seller/Servicer Guide for complete details.

Current	New
Student Loans in Repayment	
When a monthly payment is not reported on the credit report, the Lender must obtain documentation verifying the monthly payment amount included in the monthly DTI ratio.	For calculating the monthly DTI ratio, use the greater of: <ul style="list-style-type: none"> • The monthly payment amount reported on the credit report, or • 0.5% of the original loan balance or outstanding balance as reported on the credit report, whichever is greater.
Student Loans in Deferment or Forbearance	
If no monthly payment is reported on the credit report and there is no documentation in the Mortgage file indicating the proposed monthly payment amount (e.g., the loan verification letter), 1% of the outstanding balance will be considered as the monthly amount for qualifying purposes.	Use the greater of: <ul style="list-style-type: none"> • The monthly payment amount reported on the credit report, or • 1% of the original loan balance or outstanding balance as reported on the credit report, whichever is greater.
Student loan forgiveness, cancellation, discharge and employment-contingent repayment programs	

<p><i>New</i></p>	<p>The student loan payment may be excluded from the monthly DTI ratio provided the Mortgage file contains documentation that indicates the following:</p> <ul style="list-style-type: none"> • 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 deferral or forbearance period. <p>AND</p> <ul style="list-style-type: none"> • The Borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and the Lender is not aware of any circumstances that will make the Borrower ineligible in the future.
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Contingent Liabilities

Previously, Freddie Mac allowed a contingent liability to be excluded from the DTI with evidence of 12 months satisfactory payments by a third party.

Effective with this change, Freddie Mac has clarified the requirements for contingent non-mortgage debt and contingent mortgage debt. Installment, revolving, and lease payments may be excluded from the borrower's DTI with 12 months satisfactory evidence a third party is making the payment, and the third party is not an interested part to the subject real estate or mortgage transaction.

Contingent mortgage debt may be excluded when documentation showing the following is provided:

- 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 the title for the mortgaged property
- The party making the payments is not an interested party to the subject real estate or Mortgage transaction

Please contact your Sales Representative with any questions.