




United States Department of Agriculture
Rural Development
Committed to the Future of Rural Communities

TO: State Directors
Rural Development

MAY 07 2015

ATTENTION: Program Directors
Single Family Housing

FROM: Tony Hernandez 
Administrator
Housing and Community Facilities Programs

SUBJECT: Determining Student Loan Payments for the Total Debt Ratio
Single Family Housing Direct Loan Program

PURPOSE:

The purpose of this memorandum is to provide guidance on how to determine the amount of the student loan payments when calculating the total debt ratio. This guidance acknowledges the availability of improved student loan repayment options upon leaving college and the possible fluctuations with the student loan payments every year while balancing the need to manage risk when making a single family housing direct loan.

BACKGROUND:

A number of changes have occurred over the last several years regarding student loans made in the private and public arenas. Student loan borrowers now have more varied repayment plan options. For example, Federal student loan borrowers may, if eligible, take advantage of repayment plans that use their adjusted gross income and family size to determine their monthly payment.

EXPIRATION DATE:
May 31, 2016

FILING INSTRUCTIONS:
Housing Programs

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Under certain student loan repayment plan options, a student loan borrower could have a \$0 monthly payment and be considered in repayment status. The \$0 monthly payment is considered a payment and each \$0 monthly payment counts towards the repayment terms.

Qualifying and remaining qualified for some repayment plan options is quite complex and requires an annual review by the loan holder.

IMPLEMENTATION RESPONSIBILITIES:

Due to the uncertainty in some of the student loan repayment plan options, the higher of the monthly student loan payment listed on the credit report or one percent (1%) of the student loan balance must be used in the calculation of the total debt ratio. This applies to all student loans regardless of status (deferred, in repayment, etc.).

The Loan Approval Official may grant an exception and use the actual monthly payment under the existing repayment plan if:

- Lender documentation is obtained confirming that the loan status is “repayment” and the repayment plan is something other than the standard 10-year repayment plan;
- Using the higher of the monthly student loan payment listed on the credit report or one percent (1%) of the student loan balance results in a qualification amount that is insufficient to obtain modest, decent, safe and sanitary housing;
- No additional risk layering (e.g. adverse credit waivers, use of compensating factors, etc.) is allowed without strong justification; and
- The Loan Approval Official thoroughly documents their rationale for allowing the exception in the running case record.

Please note that this guidance will expire on the memorandum’s expiration date unless revisions specific to this subject are made in Handbook-1-3550, Chapter 4, via a Procedure Notice (PN) between now and then. In which case, the PN date announcing the related handbook revisions will serve of this memorandum’s expiration date.

If you have any questions regarding this memorandum, please contact Brooke Baumann of the Single Family Housing Direct Loan Division at (202) 690-4250.

Sent by Electronic Mail on May 6, 2015 at 12:50 p.m. by the Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate..