

Calculating Student Loan Debt for Mortgage Qualification

A Comprehensive Guide by The Housing Assistant



Introduction

Student loans are one of the most common and complex liabilities considered during the mortgage underwriting process. Different loan types (FHA, VA, USDA, Conventional) have varying methods for calculating student loan debt for Debt-to-Income (DTI) purposes. This guide outlines how to calculate student loan payments and interpret agency requirements to ensure accuracy and compliance.

Understanding Student Loan Impact on DTI

Student loan debt impacts the borrower's back-end DTI ratio. Even deferred or income-driven repayment plans must be evaluated. Lenders must verify whether the borrower has a monthly obligation and apply the correct payment per agency guidance.

Student Loan Calculation by Loan Type

FHA Guidelines

- Standard Rule: Use the greater of:
 - The payment reported on the credit report (unless it's zero), or
 - 0.5% of the outstanding balance if no payment is reported or if the payment is less than fully amortizing.
- Income-Driven Repayment (IDR/IBR) Plans:

- FHA allows using the actual documented payment if it is greater than \$0 and will fully amortize the loan over the term.
- If the payment is \$0, lender must use 0.5% of balance.

VA Guidelines

- Standard Rule:
 - If the loan is in repayment or deferment 12 months or less remaining until repayment begins → use 5% of the outstanding balance ÷ 12.
 - If repayment is more than 12 months away, the payment can be excluded.
- If actual IBR/IDR payment is reported:
 - Use the payment shown on the credit report if greater than \$0.
 - If reported as \$0, must use 5% ÷ 12 rule.
- VA is one of the more flexible agencies depending on deferment length.

USDA Guidelines

- Standard Rule: Use the greater of:
 - The actual payment listed on the credit report, or
 - 0.5% of the loan balance.
- Income-Driven Repayment (IDR/IBR) Plans:
 - If a fixed payment greater than \$0 is documented and will amortize the loan, it may be used.
 - If payment is \$0 or not fully amortizing, use 0.5% of balance.

FNMA (Fannie Mae)

- Standard Rule:
 - Use the actual documented payment amount (even if \$0 on an IDR plan), if it is reported on the credit report or verified by documentation.
- If no payment is reported:
 - Use 1% of the balance or
 - A calculated payment using a verified repayment term.

- FNMA is more lenient than FHA/USDA because it allows \$0 IBR payments.

FHLMC (Freddie Mac)

- Standard Rule:
 - Use the actual monthly payment on the credit report or verified by documentation.
- If no payment reported:
 - Use 0.5% of the balance.
- Freddie does not allow a \$0 payment (unlike Fannie).
- For IDR/IBR → must use a documented payment greater than \$0. If \$0, revert to 0.5%.

Student Loan Calculation Reference Table

Agency	Uses Actual IBR/IDR Payment?	If \$0 Payment Reported	If No Payment Reported
FHA	Yes, if > \$0	Use 0.5% of balance	Use 0.5% of balance
VA	Yes, if > \$0	Use 5% ÷ 12 rule	Use 5% ÷ 12 rule
USDA	Yes, if > \$0 and fully amortizing	Use 0.5% of balance	Use 0.5% of balance
FNMA	Yes, even \$0 allowed	\$0 allowed	Use 1% or calculated
FHLMC	Yes, if > \$0	Use 0.5% of balance	Use 0.5% of balance

Best Practices When Evaluating Student Loans

- *Always obtain a recent credit report and student loan statement.
- *Confirm if loan is in deferment, forbearance, or repayment.
- *Request documentation of IDR or graduated plans.
- *Use the more conservative payment if guidance is unclear.
- *Keep notes of loan servicer communications in file.
- *Most conservative = FHA, USDA, Freddie (default to 0.5% rule).
- *Most flexible = Fannie (allows \$0 IDR payment).
- *VA depends on deferment timeframe but uses 5% ÷ 12 if no payment.