Fannie Mae®

Student Loan Solutions

Frequently Asked Questions

Listed below are common questions about our Student Loan Solutions. Refer to *Selling Guide* Announcement SEL-2017-04 for more details.

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Q1. How does Fannie Mae anticipate Student Loan Solutions will benefit borrowers?

Forty-four million Americans today have student loan debt; seven in 10 graduates of public and nonprofit colleges in 2015 had student loan debt; and recent graduates averaged $34,000 in student loan debt.* The Student Loan Solutions referenced in the Announcement address challenges and obstacles to homeownership due to a significant increase in student loan debt over the past decade and provide access to credit for qualified borrowers. The new solutions give homeowners the opportunity to pay off one or more student loans with a lower cost mortgage refinance, allow borrowers to exclude certain monthly obligations paid by others from the debt-to-income (DTI) ratio, and make it more likely for borrowers with student debt to qualify for a mortgage loan by allowing lenders to accept student debt payments included on credit reports.

Student Loan Cash-Out Refinance

Q2. Why did Fannie Mae decide to offer the Student Loan Cash-Out Refinance option and how did you get comfortable from a risk perspective?

The Student Loan Cash-Out Refinance offers simpler eligibility terms and reduced fees designed to provide additional options for borrowers with student debt. This option is available only for loans underwritten through Desktop Underwriter® (DU®). The maximum loan-to-value (LTV) ratios for the Student Loan Cash-Out Refinance offering align with those for our standard Cash-Out Refinance. (Refer to the Eligibility Matrix for details.)

Q3. Can part of a student loan debt be paid off with the refinance?

No, borrowers may not partially pay down a student loan. Student loan(s) must be paid in full with the transaction. No other debts can be paid except PACE (Property Assessed Clean Energy) loans.

Q4. Are high-balance loans eligible?

Yes.

*Data from the Federal Reserve Bank of New York, "Press Briefing on Household Debt with Focus on Student Debt," April 3, 2017; see also, The Institute for College Access & Success, Project on Student Debt, 2016.

Q5. Are Texas 50(a)(6) loans eligible under the Student Loan Cash-Out Refinance offering?

The Student Loan Cash-Out Refinance offering does not prohibit Texas 50(a)(6) loans. However, lenders must determine whether the loan complies with Article XVI, Section 50(a)(6). Please see *Selling Guide* section B5-4.1, General Requirements of Texas Section 50(a)(6) Mortgages, for details.

Q6. Are there any technical considerations for lenders and technology service providers?

Student Loan Cash-Out Refinance transactions must be delivered to Fannie Mae with Special Feature Code (SFC) 841. Many loan origination systems (LOSs) allow users to create SFCs as needed. In addition, the lender's or LOS's proprietary or third-party product and pricing engine (PPE) would need to reflect the waiver of the COR loan-level price adjustment (LLPA). Making that update to a PPE may involve creating a new product or making other adjustments, which may require coding.

Debts Paid by Others

Q7. Why did Fannie Mae make this policy change to exclude debt paid by others and how did you get comfortable from a risk perspective?

This policy change provides greater access to credit for creditworthy borrowers who meet all other requirements. It also supports Fannie Mae's broader efforts to mitigate the widespread challenges of student debt. From a risk perspective, we are still requiring 12 months of documentation to verify that a party (other than the borrower) has been paying the monthly payments.

Q8. What evidence needs to be provided?

Lenders must obtain the most recent 12 months' cancelled checks (or bank statements evidencing 12 months payments) from the party paying the debt. Additionally, lenders must ascertain that there is not a history of delinquent payments for that debt.

Q9. Can this option be manually underwritten?

Yes, this option can be underwritten through DU and manually.

Q10. If someone else pays only a portion of the non-mortgage debt, is all of the non-mortgage debt excluded in the DTI ratio, or is it only the portion that is paid by the third party?

In order for the debt to be excluded from the DTI ratio, the other party has to pay the complete monthly obligation every month for a minimum of 12 months.

Q11. What about mortgage debt?

We will continue permitting exclusion of the mortgage monthly payment from a borrower's DTI ratio when the lender can provide a 12-month history of satisfactory payment by another party, but only if the other party is obligated on the mortgage debt.

Student Loan Payment Calculation

Q12. Why is Fannie Mae making this student loan payment calculation change and how did you get comfortable from a risk perspective?

We recognize the operational complexity of our previous policy and this change simplifies the process for lenders. For student loans associated with an income-driven repayment (IDR) plan, the student loan payment, as listed on the credit report, is the actual payment the borrower is making and that payment should be used in qualifying. Any future increases in the IDR payment will be tied to similar increases in the student's income, mitigating concerns that IDR payments may create payment shock.

Q13. Some IDR plans allow a borrower's payment to go to $0. In that case, how is the student loan payment calculated?

As long as the lender can provide documentation showing the IDR payment is $0, they can qualify the borrower with $0 for the monthly qualifying payment.

Q14. If a student loan is in deferment or forbearance, can the payment amount be excluded for qualifying?

No, payments in deferment or forbearance may not be excluded for qualifying. If the student loan is in deferment or forbearance and the credit report payment amount is missing (or $0), lenders must calculate a qualifying payment by either using 1% of the outstanding student loan balance or a fully amortizing payment using the documented loan repayment terms. For details on the various repayment options for federal student loans, including definitions of deferment and forbearance, see https://studentaid.ed.gov/sa/repay-loans.

Q15. What if the credit report does not reflect the correct student loan monthly payment and there is documentation in the file to support a different monthly payment?

If a lender has student loan documentation in the file (i.e., most recent student loan statement), evidencing a different monthly payment than the credit report, the lender may use that alternative documentation to support the correct monthly payment amount. Alternatively, lenders may obtain a credit report supplement or update the credit report to reflect the correct monthly payment amount.

Q16. Will Fannie Mae continue allowing lenders to manually calculate an estimated student loan payment in cases where the repayment terms are unknown?

Yes. If the repayment terms are unknown and lenders choose not to estimate a 1% (of unpaid principal balance) payment, lenders may calculate a payment that will fully amortize the loan(s) based on the current prevailing student loan interest rate and the allowable repayment period shown in the table below.

The "current prevailing student loan interest rate" can be found on a variety of websites. For example, see U.S. Department of Education Federal Student Aid in E-1-03, List of Contacts (01/31/2017). The table below specifies the repayment period to be used when calculating a fully amortizing payment.

Calculating a Student Loan Repayment	
Total outstanding balance of all student loans	**Repayment period**
$1 — $7,499	10 years
$7,500 — $9,999	12 years
$10,000 — $19,999	15 years
$20,000 — $39,999	20 years
$40,000 — $59,999	25 years
$60,000 +	30 years

Example: Calculating an Amortizing Payment

Balance: $17,500

Repayment period: 15 years

Interest rate: 4.29%

Monthly Amortizing Payment: $132.00