Conventional Lending Guide

Chapter 7 | Liabilities and Qualifying Ratios

The risk analysis for any transaction must include the evaluation of the borrower's recurring monthly liabilities and a calculation of qualifying ratios. All liabilities affecting income or assets that will affect the borrower's ability to fulfill the mortgage payment obligation must be taken into consideration.

Cardinal Overlays to agency guidelines are highlighted in our signature *Riptide* color, and are also listed in the corresponding Retail or TPO Product Overlay Matrix available on the HUB

Monthly Obligations Included in Qualifying Ratios

A borrower's liabilities include the following:

- Housing expense on the borrower's principal residence
- All revolving charge accounts
- Installment loan debts with a remaining payment term greater than 10 months
- Lease payments
- Monthly payment amounts for other properties including principal and interest on the first lien and any secondary financing; taxes and insurance; and, when applicable, mortgage insurance premiums; leasehold payments, and homeowners association dues
- HELOCs
- Alimony and child support
- Maintenance payments
- All other debts of a recurring nature

For each liability, the unpaid balance, the terms of repayment, and the borrower's payment history must be determined and any other liability that is not shown on a credit report must be verified by obtaining documentation from the borrower or creditor.

If the credit report does not contain a reference for each significant open debt shown on the loan application—including outstanding mortgage debt, bank, student, or credit union loans— separate credit verification must be obtained.

If a current liability appears on the credit report that is not shown on the loan application, the borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the borrower's explanation.

If the borrower discloses additional liabilities or such are discovered by Cardinal after the underwriting decision has been made, up to and concurrent with closing, the loan must be returned to underwriting to recalculate the borrower's debt-to-income ratio.

Undisclosed Obligations

Undisclosed debt is defined as any loan or liability (e.g., auto, revolving, installment, mortgage, or lease) that exists at the time the borrower closes on the subject loan and is not disclosed by the borrower during origination. Obligations to be considered as possible recurring debts and included in the DTI calculation may be identified on sources including, but not limited to:

- Credit report
- Bank account statements
- Loan Application
- Pay stubs

All discrepancies must be resolved prior to final approval. If a possible undisclosed obligation is discovered, additional documentation must be provided to support if there is an additional obligation to include in the DTI.

Examples of undisclosed obligations:

- Tax liabilities or payments
- Court ordered obligations for alimony, child support or separate maintenance
- Allotments that appear on the pay stub or Leave and Earnings Statement
- Payments on bank statement to a creditor that is not listed on the credit report
- Debts incurred from short term installment plans (Buy Now/Pay Later) such as After Pay, Klarna, Affirm, Quadpay, Sezzle, Paypal Credit, Splitit, Zip Pay, Lay Buy, Open Pay, Uplift, Upgrade that show as debits on the bank statement

Any suspected undisclosed liability must be explained and documented.

Monthly Obligations Not Included in Liabilities

Some obligations are not considered a liability and will not be included as a debt or deducted from the borrower's gross income when calculating the borrower's debt-to-income ratio. These obligations include items such as:

- Open revolving accounts with zero balances (excluding HELOCs)
- Automatic deductions to savings accounts
- Collection accounts reflected on the credit report without a payment (subject to program/product restrictions)
- Child care
- Utility payments
- Deductions often identified on a borrower's pay-stub including, but not limited to:
    - Federal, state, and local taxes
    - Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts, refer to the Loans Secured by Financial Assets section
    - Commuting costs
    - Union dues
    - Voluntary deductions
- Payment for solar panel system lease or power purchase agreement (PPA); refer to Chapter 10 Property and Appraisal Requirements for solar panel requirements.

Excessive Liabilities

Fannie Mae

When the credit report reflects more than 50 liabilities with current balances, the loan is ineligible for delivery as DU will not support a liability count over 50 and an Approve/Eligible recommendation will not be issued.

To mitigate the impact of excessive liabilities, Octane will not send credit accounts with zero balances and no monthly payments to AUS. Please note, debts may not be combined to lower the number of liabilities.

Freddie Mac

When the credit report reflects more than 45 liabilities with current balances, the loan is ineligible for delivery as LPA will not support a liability count over 45 and an Accept/Eligible recommendation will not be issued.

To mitigate the impact of excessive liabilities, Octane will not send credit accounts with zero balances and no monthly payments to AUS. Please note, debts may not be combined to lower the number of liabilities.

Debt to Income Ratios (DTI)

The Debt to Income Ratio (DTI) ratio consists of two components:

- The total monthly obligations, which includes the qualifying payment for the subject loan and other long-term and significant short-term monthly debts
- Total monthly income of all borrowers, to the extent the income is used to qualify for the mortgage

Manually Underwritten Loans

Cardinal does not currently accept manually underwritten conventional loans other than the exception for U.S. citizens living abroad purchasing a property in the U.S. Refer to Chapter 3 | Automated Underwriting | Conventional Lending Guide for additional details. Manually underwritten loans require a maximum total DTI ratio of 36% of the borrower's stable monthly income. The maximum can be exceeded up to 45% if the borrower meets the credit score requirements, reserve requirements, and the product/program eligibility criteria. See the specific product and program for further information.

AUS Processed Loans

For loans underwritten using AUS, the feedback will determine the maximum allowable DTI ratio based on the overall risk assessment of the loan casefile. Regardless of the AUS findings, the loan must meet the maximum DTI requirements for the product and program.

Calculating Total Monthly Obligation

The total monthly obligation is the sum of the following:

- The monthly housing expense of the borrower's principal residence or the qualifying payment amount if the subject loan is secured by the borrower's principal residence
- The qualifying payment amount if the subject loan is secured by a second home or investment property
- Monthly payments on installment debts and other mortgage debts that extend beyond ten months
- Monthly payments on installment debts and other mortgage debts that extend ten months or less if the payments significantly affect the borrower's ability to meet credit obligations
- Monthly payments on revolving debts
- Monthly payments on lease agreements, regardless of the expiration date of the lease
- Monthly alimony, child support, or maintenance payments that extend beyond ten months
- Monthly payments for other recurring monthly obligations
- Any net loss from a rental property

Re-underwriting Criteria

Cardinal does not apply the agency criteria for allowable tolerances to the DTI ratio. If any changes are made to the borrower's monthly obligations, monthly income, or subordinate financing terms, the loan must be resubmitted to the AUS.

Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITIA:

- Principal and interest (P&I)
- Property, flood, and mortgage insurance premiums (as applicable)
- Real estate taxes
- Ground rent
- Special assessments
- Owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit)
  - Subject property with an Appraisal Waiver
    - If the subject property is identified as either a PUD or Condominium, any related Owner's Association dues must be documented and included in the PITIA
    - Acceptable documentation includes:
      - Written Attestation (including email if name of HOA is verifiable) from the HOA confirming the amount and frequency of the property dues, or
      - Redfin, Zillow, or other printout such as an MLS listing confirming the amount and frequency of the property dues (value of subject may not be displayed)
      - Verification of Homeowner's Association Dues Form
      - Note: a processor's certification or written verification from the borrower is not acceptable documentation to confirm monthly dues
  - Subject property without an Appraisal Waiver
    - If the subject property is identified as either a PUD or Condominium, any related Owner's Association dues must be documented and included in the PITIA
    - Acceptable documentation includes:
      - Page 1 of an appraisal completed on another lending transaction confirming the amount and frequency of the property dues, or
      - Written Attestation from the HOA confirming the amount and frequency of the property dues, or

- Redfin, Zillow, or other printout such as an MLS listing confirming the amount and frequency of the property dues (value of subject may not be displayed)
- Note: a processor's certification or written verification from the borrower is not acceptable documentation to confirm monthly dues

- Any monthly co-op corporation fee (less the pro-rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit)
- Any subordinate financing payments on mortgages secured by the subject property

All components of the monthly housing expense must be entered on the application including other financing P&I, property insurance, real estate taxes, mortgage insurance, homeowner's association dues, and other proposed housing expenses.

If the subject mortgage is secured by the borrower's principal residence, the monthly housing expense is based on the qualifying payment required in accordance with the Qualifying Payment Amount section below. This amount is the monthly housing expenses used to calculate the debt-to-income (DTI) ratio.

If the subject mortgage is secured by a second home or an investment property, the qualifying payment amount is considered one of the borrower's monthly debt obligations when calculating the DTI ratio. The monthly housing expense in these cases represents the PITIA associated with the borrower's principal residence.

The credit report and any mortgage statement provided by the borrower must be reviewed to ensure the PITIA has been calculated correctly. If necessary, additional documentation must be obtained to verify the PITIA payment shown on the loan application is inclusive of all applicable items.

Rental Housing Payment

The housing payment for each borrower's principal residence (i.e. the property physically occupied by the borrower) must be considered when underwriting the loan. For the following scenarios, the borrower's monthly rental housing payment must be evaluated (if the borrower does not otherwise have a mortgage payment or no housing expense):

- For non-occupant borrowers, and
- For second homes or investment properties

Documentation

Provide one of the following to verify the rental payment:

- Six months canceled checks or equivalent payment source;
- Six months bank statements reflecting a clear and consistent payment to an organization or individual;
- Direct verification of rent from a management company;
- Direct verification of rent from an individual landlord accompanied by two months canceled checks, or other evidence of two months payments;
- A copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount

Homeowner Association Dues (HOA)

If the borrower owns residential real estate other than the subject property, documentation must be provided detailing the full PITIA expenses:

- If the property has no HOA dues, a signed letter from the borrower attesting to no dues will be required. A processor certification is not acceptable.
- If the property requires HOA dues, documentation clearly showing the monthly liability must be provided. Acceptable documentation may include, but is not limited to:
    - Page 1 of an appraisal completed on another lending transaction confirming the amount and frequency of the property dues, or
    - Written Attestation from the HOA confirming the amount and frequency of the property dues, or
    - Verification of Homeowner's Association Dues Form
        - The homeowner's association management company may complete the form on behalf of the borrower to confirm the frequency, dues, and any other pertinent information associated with the property, or

- Redfin, Zillow, or other printout such as an MLS listing confirming the amount and frequency of the property dues

  Note: a processor's certification or written verification from the borrower is not acceptable documentation to confirm monthly dues

Smart Document Reference 124.001 - Evidence of Homeowner's Association Dues Liability

Octane

Octane requirements for Evidence of Homeowner's Association Dues Liability will fire when it is indicated that the REO is HOA applicable by entering the HOA Fees in Property > Expenses. If the REO is not subject to HOA dues, the field will need to reflect zero.

Real Estate Tax Payment

Required Documentation

The calculation of real estate taxes for qualification purposes must be documented using either:

- Copies of current property tax statements, figures provided by the title company/settlement agent, or
- The Property Tax Estimate from CoreLogic located in Octane. The CoreLogic Property Tax Estimate will provide the current and projected tax values for the property based on the occupancy and loan purpose
  - Note: The CoreLogic Property Tax Estimate can be located on the Octane Charges & Credits screen in the Taxes tab. It can also be found in Octane > Documents > Property Tax Estimate.

Projected Tax

The DE underwriter may (or in some circumstances must) project the real estate taxes (Projected Amount) if they document one of the following:

- The amount of taxes will be reduced based on federal, state, or local jurisdictional requirements (e.g. Military or Senior Exemptions). However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.

- The property jurisdiction requires a transfer of ownership that typically results in a reassessment or revaluation of the property and corresponding increase in the amount of taxes.
- The transaction is New Construction (i.e. One Time Close program, or Proposed, Under Construction or Newly Built Never Occupied).
    - A reasonable estimate of the real estate taxes based on the value of the land and completed improvements must be calculated.
    - Acceptable source documents include:
        - Estimate of taxes from either the title company or the tax assessor's office
        - Property Tax Estimate from CoreLogic
        - Available Exceptions: Reference New Construction | State Specific Tax Calculations for specific states that have flexibilities regarding the tax calculations for new construction properties.
    - The borrower **must** be qualified with the Projected Amount
        - Note: A new feature allows the transaction to close with the current amount of taxes but will not impact the Projected Amount used in the qualifying DTI in Underwriting.

Tax Abatement

Refer to Chapter 10 Property and Appraisal Requirements for guidance.

Escrow Waivers

Escrows for taxes and insurance are required for all loans with an LTV in excess of 80%. Waiving of escrows is allowed on Conventional loans with LTVs <=80%. The following restrictions apply:

- The max LTV for waiving escrows in New Mexico is 79.99%
- The max LTV for waiving escrows in California is 89.99%

  - If the loan has subordinate financing, the max CLTV for waiving escrows is 80% in California

- Loans with a subject property in a flood zone cannot waive flood insurance. Flood escrows are required but taxes and hazards may be waived

- Escrow Waivers are not allowed on Fannie Mae Home Ready and Freddie Mac Home Possible and HomeOne loans due to their LTV > 80%.

Refer to Chapter 4 | Eligible Transactions for additional guidance related to Escrow and Impound Waivers.

Qualifying Payment Amount

The calculation of the qualifying payment amount for the subject property will differ based on the transaction type.

These policies apply to both manually underwritten loans and those loans assessed by an AUS. In all cases, qualification must consider the borrower's current obligations and other mortgage-related obligations, i.e. PITIA.

Mortgage loans subject to temporary interest rate buydowns must be qualified without consideration of the bought-down rate, based on the transaction type below.

Qualifying Interest Rate	
Transaction Type	**Manual Underwriting and AUS**
Fixed-rate mortgages	Note rate
Fixed-rate mortgages with temporary buydown	Note rate
ARMs with an initial fixed-rate period of five years or less	Greater of the note rate plus 2% or the fully indexed rate
ARMs with an initial fixed-rate period of greater than five years	Note rate
	The greater of the Note rate or the fully indexed rate must be used to qualify if loans are higher priced mortgage loans or higher priced covered transactions under Reg Z (and must be manually underwritten)

Qualification of ARM's in AUS

The fully indexed rate is defined as the index plus the margin as entered in the online loan application. The index and margin are required for all ARM loans submitted to the AUS.

If the "ARM Plan" field is used in the AUS, then the interest rate entered in the ARM Qualifying Rate field will be used to qualify the loan. If an interest rate is not entered in that field, the note rate plus 2% will be used to qualify the borrower.

Temporary Interest Rate Buydowns

For more information regarding Temporary Interest Rate Buydown products, refer to Chapter 4 | Eligible Transactions | Conventional Lending Guide.

Monthly Debt Obligations

Authorized User Accounts

Payment amounts on authorized user accounts must be considered in the borrower's overall qualifying debt ratio unless one of the following applies:

- Tradeline(s) are owned by the borrower's spouse or another borrower on the subject mortgage transaction and the debt(s) in question has already been included in the liability evaluation, or
- The file contains evidence another party is obligated for the authorized user account and has been making payments on the account for the last 12 months, and a satisfactory payment history has been validated.

See Chapter 6 | Credit | Conventional Lending Guide, Authorized User for more information and specific requirements.

Alimony/Child Support/Separate Maintenance Payments

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten months—the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration.

The borrower must provide a copy of a divorce decree, separation agreement, support order, income withholding order, or any other written legal agreement to verify required payments under the following circumstances:

- An alimony, child support, or separate maintenance obligation is listed on the loan application
- Documentation in the loan file suggests that alimony, child support, or separate maintenance obligation may be present
- The borrower indicates that they are divorced or unmarried, and dependents are listed on the application or tax documents

Acceptable sources of documentation include:

- A copy of the finalized divorce decree
- A copy of the signed separation agreement
- A notarized agreement signed by all parties and their respective attorney
- A copy of the court order specifying the amount
- Other legally accepted evidence dictated by local custom

The Underwriter may request additional documentation verification when needed.

Smart Document Reference 182.000 - Child Support Document | Liability Owed

Smart Document Reference 182.001 - Alimony | Liability Owed

Calculation of Alimony Debt

Fannie Mae

For alimony obligations, the underwriter has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

When using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, under *Income Type*, the amount of the alimony obligation must be entered as a negative amount. If the borrower also receives alimony income, this amount should be combined with the amount of the alimony payment and entered as a net amount.

Freddie Mac

In lieu of including alimony payments in the calculation of the debt, the payments must be deducted from the Borrower's stable monthly income. The reduced stable monthly income must be used to qualify the Borrower.

When entering an alimony obligation in LPA, select “Alimony” for Income Type and enter it as a negative number. If the Borrower also receives alimony income, select the applicable income type(s) of “Alimony” for Income Type and enter the amount received; it is no longer necessary to manually add applicable income type(s) together and subtract out any obligations.

Bridge Loans

Bridge loans used to secure financing on the purchase of the subject property where the prior primary residence has not yet been sold must be included in the borrower's recurring monthly debt obligations. If the payments are not scheduled on a monthly basis (e.g. a balloon note) the underwriter must use at a minimum the equivalent monthly interest-only payment for qualification purposes.

This requirement may be waived and not require the debt to be included in the DTI ratio if the following documentation is provided:

- A fully executed sales contract for the current residence, and
- Confirmation that any financing contingencies have been cleared

Business Debt in Borrower’s Name

When a self-employed borrower claims that a monthly obligation appearing on his or her personal credit report is being paid by the borrower’s business, the account payment does not need to be considered as part of the borrower’s individual recurring monthly debt obligations if the underwriter can confirm:

- The account in question does not have a history of delinquency,
- The business provides acceptable evidence that the obligation was paid out of company funds

- Fannie Mae
    - Documentation of business payment of the liability for no less than six months preceding the Estimated Funding Date. Acceptable documentation includes:
        - Six months canceled checks or bank statements from the business account, or
        - Evidence payment was cashed or debited from the business bank account for six months, or
        - Evidence the payment was transferred into a third-party money transfer application account that is owned by the business for six months.
- Freddie Mac
    - Documentation of business payment of the liability for no less than 12 months preceding the Estimated Funding Date. Acceptable documentation includes:
        - Twelve months canceled checks or bank statement from the business account, or
        - Evidence payment was cashed or debited from the business bank account for twelve months, or
        - Evidence the payment was transferred into a third-party money transfer application account that is owned by the business for twelve months.

and,

- The cash flow analysis of the business took payment of the obligation into consideration
    - The tax returns must evidence that business expenses associated with the debt (i.e. interest, lease payments, taxes, insurance) have been reported and support that the debt has been paid by the business
    - A written statement prepared by a tax preparer, CPA, bookkeeper or other tax professional confirming payments are located within the applicable expense line on the tax return is required

    - The amount of expense (i.e. interest, lease) should be equal to or greater than the amount of applicable expense shown on the credit report and the age of the loan

The account payment must be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds, or
- If the business provides acceptable evidence of its payment of the obligation, but the underwriter's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense - and taxes and insurance, if applicable - equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan), or
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the net income of the business should be adjusted by the amount of interest, taxes, or insurance expenses, if any, that relate to the account in question.

Excluding Debt Paid for by a Business when Self-Employment Income is not Used to Qualify

This scenario could occur when a borrower's primary source of income is a wage earner but has secondary self-employment that is paying for a business debt in the borrower's name.

The documentation requirements stated within Business Debt in Borrower's Name must be provided to support excluded debt paid by the business is considered in the cash flow of the organization.

- If the business is generating positive income, no additional analysis needs to be completed if the self-employment is not being used to qualify other than to document the payment of the excluded debt.
- However, any loss realized from self-employment does need to be considered since a loss from the business may indicate the inability to continue maintaining the payment of the debt. In this case, the debt will need to be included in the borrower's DTI if the self employment is not being used as a source of income for qualification.

Business Expense Account/Travel and Entertainment Cards

Borrowers whose credit reports reflect credit cards for business travel need not include the monthly payment in the borrower's DTI ratio if:

- A statement is obtained from the employer that the company pays all business expenses
- The most recent two months of billing statements showing prior balances paid in full

If the employer does not make all payments, then the account must be included in the recurring monthly debt obligations.

Contingent Liabilities

A contingent liability exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment. See the Debts Paid by Others section for guidance and requirements.

Contractual Payments

Contractual obligations on certain investments or other business ventures (such as partnerships) that could impact the borrower's cash flow and debt service must be considered when analyzing the borrower's recurring monthly obligations. Items such as required capital distributions, negative capital accounts, or loans to an owner or stockholder must be considered when analyzing the borrower's business cash flow. If the business cannot support the repayment of the items, the underwriter must make a determination of whether the items should be included in the borrower's recurring monthly obligations.

Court-Ordered Assignment of Debt

When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. The underwriter does not need to count this contingent liability as part of the borrower's recurring monthly debt obligations, if:

- The Borrower provides a copy of the court order, divorce decree, or separation agreement evidencing the assignment of the obligation to another party

The payment history for the assigned debt after the effective date of the assignment does not need to be considered. The borrower's payment history for the debt before its assignment must be considered in the underwriting analysis.

Cryptocurrency

Monthly payments on debts secured by cryptocurrency must be included in the Borrower's debt payment-to-income ratio.

Debts Paid by Others (Co-Signed Loans)

Non-Mortgage Debt

When a borrower is obligated on a non-mortgage debt, but is not the party who is actually repaying the debt, the debt may be excluded from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment, revolving, lease payments, alimony, child support, and separate maintenance.

A 12-month satisfactory payment history must be supported with the most recent and consecutive 12 months' canceled checks (or bank statements) from the other party. The payment history must reflect no late payments in order to exclude the liability from the borrower's obligations.

A full 12-month history of the payments is required to support the ability of the other party to maintain the payment in a satisfactory manner; the monthly payment(s) may not be made in advance to meet this requirement.

Forbearance or Deferment

FNMA

In the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the debt may still be omitted with evidence that the outstanding balance has been brought current by the other party paying the obligation. A 12-month history of payments must still be documented, however, the period of forbearance or deferment may be considered as part of the 12-month history.

Freddie Mac

In the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI. Due to not meeting the required 12-month recent consecutive timely payments made by the other party, the monthly payment must be included even if the debt has been brought current and/or the forbearance canceled.

Mortgage Debt

When a borrower is obligated on a mortgage debt, but is not the party who is actually repaying the debt, the full monthly housing expense (PITIA) may be excluded from the borrower's recurring monthly obligations if:

- The party making the payments is obligated on the mortgage debt,
- There are no delinquencies in the most recent 12 months,
- The borrower is not using rental income from the applicable property to qualify, and
- The party making the payments is not an interested party to the subject real estate or mortgage transaction

In the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI. Due to not meeting the required 12-month recent consecutive timely payments made by the other party, the monthly payment must be included even if the debt has been brought current and/or the forbearance canceled.

Deferred Installment Debt

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report will not indicate the monthly amount that will be payable at the end of the deferment period, copies of the borrower's payment letters or forbearance agreements must be obtained so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

Home Equity Lines of Credit

Fannie Mae

When the borrower has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations.

If a payment is not shown on the credit report, documentation supporting the terms of repayment must be obtained. If the HELOC does not require a payment, then a recurring monthly obligation does not exist and does not need to be included in the liabilities.

Freddie Mac

HELOC payments must be included in the monthly debt payment-to-income ratio when there is an outstanding balance on the account. In the absence of a monthly payment on the credit report, and if there's no documentation in the Mortgage file indicating a monthly payment amount, 1.5% of the outstanding balance will be considered to be the HELOC monthly payment amount.

Documentation of HELOC terms (including the monthly payment amount) continues to be required for HELOCs originated concurrently with the First Lien Mortgage.

Reduced or Frozen HELOCs - CLTV Treatment

Frozen Credit Lines

If draws on the account are temporarily unavailable, yet may become available at a future date without re-application by the borrower, the account is considered frozen at the current outstanding balance. The higher of the outstanding balance or the HELOC limit must be used in qualifying the CLTV.

Reduced Credit Lines

If the account limit has been reduced and/or modified and the borrowers may not make any future draws or additional increases to the line without reapplying, then the account is considered reduced. If the line has been reduced or modified, obtain a letter from the subordinate lien holder on their letterhead indicating the HELOC was permanently reduced. The letter must:

- State the amount to which the HELOC has been reduced

- Include the date of the HELOC reduction

The executed recorded modification agreement must also be obtained.

The CLTV is calculated on the higher of the reduced line or the unpaid principal balance if the modification agreement has been recorded. If the modification agreement has not yet been recorded, the higher of the original line or the unpaid principal balance is used in calculating the CLTV.

Garnishments

All garnishments with more than ten months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.

Installment Debt

All installment debt must be considered part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining. However, an installment debt with 10 or fewer monthly payments remaining may be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her credit obligations.

When determining whether an obligation with 10 or fewer months remaining will significantly impact the borrower's ability to repay the mortgage debt, factors to consider can include debt to income ratios, number of months reserves, or the number of remaining months of the debt in relation to the first payment date. For example, if the debt has 6 months left until it is paid in full and the borrower has a similar number of months reserves, the debt most likely would not have a significant impact on the borrower's ability to repay the mortgage loan. However, if the debt has 9 months remaining and the borrower has no documented reserves, the monthly payment of that debt could impact the borrower's ability to repay the mortgage loan.

When including an installment debt with payments less than 10 months remaining, the balance of the debt must be increased to an amount that would not be paid off in 10 months or less. This will ensure the monthly payment is captured in the qualifying ratios.

At the discretion of the underwriter, installment debt that currently requires no payments, but is due in less than 10 months may also be excluded from the borrower's recurring monthly payments if the debt has a previous history of the debt terms being extended; for example, a note that requires a balloon payment or has deferred payments that will be extended/restructured. Documentation of the previous restructures and the current restructure must be obtained for the loan file.

Refer to Short-Term Debt Obligations for guidance related to short-term installment plans.

Lease Payments

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease*. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house. If the lease is expiring and the borrower is either renewing the lease or purchasing the asset, proof of the terms of repayment must be obtained from the borrower.

*The payments for a solar panel system lease or Power Purchase Agreement (PPA) may be excluded from the DTI. Refer to Chapter 10 Property and Appraisal Requirements for solar panel requirements.

Loans Secured by Financial Assets

Fannie Mae

When a borrower uses his or her financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has a contingent liability.

The monthly payment does not need to be included as part of the borrower's recurring monthly debt obligations provided a copy of the applicable loan instrument is obtained that shows the borrower's financial asset as collateral for the loan and the account balance is sufficient to pay off the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements or as qualifying income, the value of the asset must be reduced by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

Loans and lines secured by real estate or other personal property must be included in the borrower's recurring monthly debt obligations.

401(k) Loan Reflected on Paystub

- If the borrower's paystub reflects a loan against a 401(k), it is not required to document that the 401(k) has sufficient assets to cover the debt. The repayment of the loan does not need to be considered in the borrower's recurring monthly debt obligation.

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Payments on installment debts secured by financial assets in which repayment may be obtained by liquidating the asset may be excluded from the monthly debt payment-to-income ratio when qualifying the Borrower, regardless of the payment amount or number of payments remaining. The loan secured by the financial asset must have been made by a financial institution. Only the portion of the funds that exceed the loan balance may be considered as funds used to qualify the borrower for the transaction.

Loans and lines secured by real estate or other personal property must be included in the borrower's recurring monthly debt obligations.

401(k) Loan Reflected on Paystub

- When a payment for a 401(k) loan appears on the borrower's paystub, no additional documentation is required to exclude the monthly payment from the DTI ratio as it is considered an installment debt secured by a financial asset.

Margin Debt

Borrowers who have stock portfolios often have margin accounts where the borrower has used their existing stock (assets) to guarantee a loan to purchase other marketable securities in their brokerage accounts. The margin account can be excluded from the borrower's recurring monthly debt obligations when:

- The assets within the brokerage account securing the margin account are clearly identified
- The margin account balance is deducted from the borrower's marketable security total

If the account on which the borrower has a margin loan is being used as down payment, funds to close, or reserves, the adjusted balance of the asset excluding the margin debt as a liquid asset needs to be calculated.

Mortgage or Title held by Multiple Parties

When the borrower is on the Mortgage Note, individually or with additional parties, they are responsible for the full PITIA associated with that property. Below are the respective agencies requirements pertaining to ownership and debt obligations.

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When a party signs the mortgage note, they are responsible for the full PITIA associated with that property (regardless of the establishment of escrows). If the borrower along with multiple parties has signed the note, a percentage of the obligation may not be omitted based on either the percentage of ownership, or the number of obligated parties. Each obligated party is fully responsible for the PITIA in its entirety, unless meeting requirements of Debts Paid by Others.

When a borrower has ownership in, and is on title to other property, but not obligated on the mortgage Note, the expenses of that property are not required to be included in the DTI ratio calculation. In addition, a mortgage payment history is not required when the borrower is not obligated on the Note of the property for either subject or non-subject properties.

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When a party signs the mortgage note, they are responsible for the full PITIA associated with that property (regardless of the establishment of escrows). If the borrower along with multiple parties has signed the note, a percentage of the obligation may not be omitted based on either the percentage of ownership, or the number of obligated parties. Each obligated party is fully responsible for the PITIA in its entirety

When a borrower has ownership (including joint ownership) in, and is on title to other property but not obligated on the mortgage Note, or the property is jointly held and not encumbered by a lien, the taxes, insurance and applicable HOA dues should be included in the DTI ratio calculation. A percentage of the obligation may not be omitted based on either the percentage of ownership, or the number of obligated parties. Each obligated party is fully responsible for the expenses in their entirety and should be allocated to each owner equally without consideration of ownership percentage.

Open 30–Day Charge Accounts

Open 30-day charge accounts require the balance to be paid in full every month and are not required to be included in the debt-to-income ratio. Funds in an amount equal to the account balance must be verified, in addition to any funds required for closing costs and reserves. Note: the account used must be composed of liquid assets.

If the borrower paid off the account balance prior to closing, the underwriter may obtain proof of payoff in lieu of verifying funds to cover the account balance.

Accounts offering monthly payment options in lieu of paying the balance in full must be considered a revolving account and included in the borrower debt-to-income ratio.

Freddie Mac will no longer allow 5% of a 30-day (Open-ended) account balance to be used in qualifying DTI, the full balance must be used or deducted from the borrower's available liquid assets.

FNMA

On a cash-out refinance transaction, Fannie Mae will consider the cash proceeds from our transaction as acceptable liquid assets to offset an open 30-day charge account balance.

Freddie Mac

On a cash-out refinance transaction, Freddie Mac will not consider the cash proceeds from our transaction as acceptable liquid assets to offset an open 30-day charge account; sufficient funds in an amount equal to the outstanding balance must be documented prior to closing.

Accounts with Variable Payment Options

Some 30-day charge accounts may provide flexible payment options where a portion of the balance is required to be paid in full and the other portion is treated as a revolving balance with a minimum due requirement. If a statement has been provided detailing flexible payment options, review the statement to establish the proper treatment of each option.

When qualifying the Borrower with a monthly payment other than the full amount of the outstanding account balance, satisfactory documentation from the creditor must be provided to support the DTI ratio used to qualify the Borrower.

Revolving Charge/Lines of Credit

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts. They must be considered part of the borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense.

Refer to Short-Term Debt Obligations for guidance related to short-term installment plans.

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- If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the lender must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation.
- For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of $10 or 5% of the outstanding balance as the monthly payment when calculating the total debt-to-income ratio.

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Monthly payments on revolving or open-ended accounts, regardless of the balance, must be considered as follows:

- In the absence of a monthly payment on the credit report, and if there is no documentation in the Mortgage file indicating the monthly payment amount, 5% of the outstanding balance will be considered to be the required monthly payment amount.
- Monthly payments on open-end accounts (accounts that require the balance to be paid in full monthly) are not required to be included in the monthly debt payment if the Borrower has sufficient verified funds to pay off the outstanding account balance. The funds must be in addition to any funds used to qualify the Borrower for the Mortgage transaction.
    - Freddie Mac will no longer allow 5% of a 30-day (Open-ended) account balance to be used in qualifying DTI, the full balance must be used or deducted from the borrower’s available liquid assets.

Short-Term Debt Obligations

The file should be analyzed for debts incurred from short-term (buy now/ pay later) plans such as Klarna, Affirm, or Afterpay. When such plans are identified, either through disclosure by the borrower or from loan file documentation, repayment should be treated similarly to other traditional short-term installment obligations.

Documentation outlining the terms of repayment should be obtained; if the debt appears to be a long term debt, either revolving or installment, the payment must be included in the debt to income ratios. If the repayment option is for a term of 10 months or less, the payment may be excluded if the balance will be paid in full during that time and the account closed.

Installment debt with less than 10 months remaining may need to be considered as recurring monthly debt obligation if it significantly affects the borrower's ability to meet their credit obligations.

Small Business Administration (SBA) Liens

Small Business Administration (SBA) liens must be included in the CLTV and HCLTV Ratios. Additionally, the monthly payment of the subordinate lien must also be included in the borrower's DTI ratio calculation unless the requirements can be satisfied to consider the business debt in the borrower's name.

The SBA lien should be entered as subordinate financing in the AUS. The loan should reflect the subordination of the SBA lien to all subject first liens.

Monthly payments on the SBA lien must be included in the DTI ratio unless proof is provided the business is paying the debt as follows:

- A minimum of the most recent 12 months canceled checks from the business's checking account, and
- Business tax returns reflecting the related business expense deductions

In addition to the above requirements,

- The account in question does not have a history of delinquency, and
- The underwriter's analysis of the business took the payment of the obligation into consideration

Paycheck Protection Program (PPP)

The PPP is a loan issued by Small Business Administration lenders under the CARES Act. These loans are designed to provide a direct incentive for small businesses to keep their workers on the payroll. The underwriter should apply due diligence and review the actions of the business and any impact the current situation has taken on the flow of income.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for the loan to be forgiven. If a self-employed borrower has taken out an SBA PPP loan under the CARES Act, no payment, estimated or otherwise, needs to be included in the DTI or considered in the income calculation (e.g., as a deduction from income).

Student Loans

Calculating the Debt-to-Income (DTI) ratio

Fannie Mae

- If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes.
- If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.
- If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below:
    - If the borrower is on an income-driven repayment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
    - For deferred loans or loans in forbearance, the lender may calculate:
        - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or

            - a fully amortizing payment based on the current prevailing student loan interest rate and the allowable repayment period
                - The "current prevailing student loan interest rate" can be found on a variety of websites. For example, see the U.S. Department of Education Federal Student Aid website

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In all cases, an amount greater than zero must be included in the monthly debt payment-to-income ratio as described below.

- For student loans in repayment, deferment, or forbearance, including income-driven repayment plans:
    - If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report unless other documentation in the file supports a different current payment amount greater than zero, or
    - If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance as reported on the credit report, unless other documentation in the file supports a different current payment amount greater than zero
- For student loans in income-driven repayment plans:
    - The monthly payment amount, as described above, may be used for qualifying, unless documentation in the file indicates the borrower must recertify their income and/or the borrower's payment will increase prior to or on the first mortgage payment due date
    - When documentation in the mortgage file indicates the borrower must recertify their income and/or that the borrower's payment will increase prior to or on the first mortgage payment due date, the underwriter must include in the monthly debt payment-to-income ratio:
        - The greater of the current payment or 0.5% of the outstanding loan balance, or
        - The documented future payment amount if greater than the current payment, or
        - The future payment amount that is less than or equal to the current payment, provided that the file contains documentation that the borrower has recertified their income and the future payment amount has been approved. The future payment amount must be greater than zero.

- For Student loans in forgiveness, cancellation, discharge, and employment contingent repayment programs:
  - The student loan payment may be excluded from the monthly debt payment-to-income ratio provided the Mortgage file contains documentation that indicates the following:
    - The student loan has 10 or fewer 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 deferment or forbearance period

  AND

    - The Borrower is eligible or approved, as applicable, for the student loan forgiveness, cancelation, discharge or employment-contingent repayment program, and the Seller is not aware of any circumstances that will make the Borrower ineligible in the future. Evidence of eligibility or approval must come from the student loan program or the employer, as applicable.

Tax Liability (Federal or State Income Taxes)

Delinquent Tax Liability
• Delinquent tax liability refers to the prior year's tax liability. Taxes due in this case result from any amount owed to the IRS *after* the tax deadline for a particular tax year. • For example, 2022 is considered the most recent tax year; for purposes of determining Delinquent Tax Liability, 2021 is considered the prior tax year for applicability of the below guidance. For guidance related to tax filing dates, refer to Chapter 2 Documentation Standards Tax Documentation Policy.
When a borrower has entered into an installment agreement with the IRS or State government agency to repay delinquent federal or state income taxes, the underwriter may include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien or State Tax Lien has been filed against the borrower in the county in which the subject property is located, and
- The lender obtains the following documentation:
    - An *Approved* IRS installment agreement or State installment agreement with the terms of repayment, including the monthly payment amount and the total amount due; and
    - Evidence the borrower is current on the payments associated with the tax installment plan (borrower is not past due). Acceptable evidence includes the most recent payment reminder from the IRS or State, reflecting the last payment amount and date and the next payment amount owed and due date
        - FNMA requires at least one payment must have been made prior to closing.
- The monthly payment may be omitted from the qualifying ratios if there are 10 or less monthly payments remaining, however, the debt should be considered as recurring monthly debt if it significantly affects the borrower's ability to meet their credit obligations

Non-Delinquent Tax Liability

- Non- Delinquent Tax Liability refers to the current year's tax liability. Taxes due in this case result from any amount owed to the IRS *prior to* the tax deadline for the most recent tax year.
- For example, 2022 is considered the most recent tax year. For purposes of determining Non-Delinquent Tax Liability, 2022 is considered the current tax year for applicability of the below guidance. For guidance related to tax filing dates, refer to Chapter 2 Documentation Standards Tax Documentation Policy.

When a borrower has entered into an installment agreement with the IRS or State government agency to repay current federal income taxes or state income taxes, the underwriter may include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien or State Tax Lien has been filed against the borrower in the county in which the subject property is located, and
- The lender obtains the following documentation:

- Online Payment Agreements (applicable for Federal taxes owed)
    - Available for individuals who owe $50,000 or less in combined income tax, penalties and interest
    - The Online Payment Agreement will provide an immediate determination for the proposed payment plan.
- Individuals who do not qualify to use the online payment agreement option, or choose not to use it, can also apply for a payment plan using Form 9465, Installment Agreement Request
    - If the payment entered on line 11 is equal to or greater than the payment amount on line 10, this payment is used in the DTI calculation and no further "approval" from the IRS is required prior to loan closing.
    - If the payment entered on line 11 is less than the payment amount on line 10, the borrower will need to obtain IRS approval for the proposed installment payment prior to loan closing.

- The monthly payment may be omitted from the qualifying ratios if there are 10 or less monthly payments remaining, however, the debt should be considered as recurring monthly debt if it significantly affects the borrower's ability to meet their credit obligations

Timeshare Monthly Maintenance Fees

While the timeshare installment debt must be considered part of the borrower's recurring monthly debt obligation if there are more than ten monthly payments remaining, the associated maintenance fees are considered a discretionary use of income and do not need to be included in the DTI ratio.

Transfer of Servicing on Existing Mortgage

There are times when a mortgage has been transferred to a new servicer, but the credit report is still showing a balance with the prior lender. When this occurs, the following documentation can be provided to support the transfer and acceptable payment history with the new servicer:

- A credit supplement showing the mortgage on credit has been closed with a zero balance and an updated rating with the new servicer, or
- A transfer letter from the new servicer and evidence that the mortgage has been paid satisfactorily since the transfer of servicing.

Unreimbursed Employee Business Expenses

The underwriter must determine whether the borrower has unreimbursed employee business expenses for the following scenarios:

- When a borrower has commission income that represents 25% or more of the borrower's total annual employment income
- When an automobile allowance is included in the borrower's monthly qualifying income.

The underwriter must determine the borrower's recurring monthly debt obligation for such expenses by developing a 24–month average of the expenses, using information from the borrower's IRS Form 1040 including all schedules (Schedule A and IRS Form 2106). Automobile depreciation claimed on IRS Form 2106 should be netted out of this calculation.

For both of the above scenarios when calculating the total debt-to-income ratio, the monthly average for unreimbursed expenses should be subtracted from the borrower's stable monthly income. Automobile lease or loan payments are not subtracted from the borrower's income; they are always considered part of the borrower's recurring monthly debt obligations.

Due to changes in the tax laws, lenders will not be able to identify unreimbursed business expenses and therefore the requirement for IRS Form 2106 will not be required for 2018 personal tax returns.

See the Employment and Income Chapter of the guidelines for additional information regarding automobile allowances.

Qualifying Impact of Other Real Estate Owned

Qualifying Considerations

When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is:

- A Departure or Retained Residence
  - An existing investment property or a current principal residence converting to investment use, the borrower must be qualified in accordance with, but not limited to, guidelines pertaining to:
    - Rental Income per Chapter 8 Employment and Income,
    - Minimum Reserve Requirements per Chapter 9 | Assets | Conventional Lending Guide, and
    - Multiple Financed Properties per Chapter 4 | Eligible Transactions | Conventional Lending Guide.
  - An existing second home or a current principal residence converting to a second home, the PITIA of the second home must be counted as part of the borrower's recurring monthly debt obligations
- The borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the subject transaction, see Current Principal Residence Pending Sale

Monthly payment amounts for other properties owned must be verified and must include:

- Principal and interest on the first lien,
- Principal and interest on any second lien,
- Property related taxes, insurance, mortgage insurance premiums (where applicable),
- Leasehold payments,
- Ground rent, OHR6KRYBnXt5alL0
- Co-op maintenance, and
- Homeowners association dues (excluding unit utility charges)

Real estate tax amounts for non-subject properties must be evidenced utilizing one of the following documents:

- Property Tax Statement (Notice of Valuation)
- Income Tax Return Schedule E
- Form 1098
- Printout from County Tax Assessor
- Other documentation supporting property tax amount

- If taxes are escrowed, the mortgage holder's billing statement reflecting escrows

Properties Owned Free and Clear

If the borrower owns properties (other than the subject property) free and clear, the associated real estate taxes, insurance, and any homeowner's association fees must be documented and included in the calculation of that property's qualifying expense per the applicable method of qualification as a second home or investment property.

- Documentation to show a property is owned free and clear include:
    - Property profile supporting no active liens
    - Lien search from title company
    - Homeowner's Insurance on the property showing no mortgagee

Mortgage Assumption

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When a borrower sells a mortgaged property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability.

The payment (PITIA) can be excluded as part of the borrower's recurring monthly debt obligations if the underwriter verifies that the property purchaser has at least a 12-month history of making regular, timely payments for the mortgage. This can be documented by obtaining:

- Evidence of the transfer of ownership;
- A copy of the formal, executed assumption agreement; and
- A credit report indicating that consistent and timely payments were made for the assumed mortgage

If documented timely payments of the most recent 12-month period cannot be obtained, the applicable mortgage payment must be counted as part of the borrower's recurring monthly debt obligations.

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A Mortgage may be excluded from the monthly debt payment-to-income ratio if the borrower is listed as the borrower on a Mortgage that has been assumed by another.

It must be verified that the Borrower no longer owns the property by documenting the property transfer and obtaining a copy of any assumption agreement executed by the transferee.

If the Borrower has not been legally released from liability on the assumed mortgage by the servicer or owner of the mortgage, the monthly payment for the assumed mortgage may be excluded from the monthly debt payment-to-income ratio when:

- The mortgage file contains documentation of the property transfer, evidencing that the Borrower no longer owns the property, and
- The assignee has made timely payments for at least the most recent 12 months, as documented by:
  - A copy of the fully executed Mortgage assumption agreement, and
  - Evidence of timely payments on the assumed Mortgage for the most recent 12 months as documented on the Borrower's credit report

Property Settlement Buyout

When a borrower's interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the original lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability.

If documentation to confirm the property settlement buyout (e.g. divorce decree, partnership dissolution) and to transfer of title to the property is obtained, this liability does not have to be considered as part of the borrower's recurring monthly debt obligations.

Current Principal Residence Pending Sale

If the borrower's current principal residence is pending sale, but the transaction will not close with the title transferring to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.

However, the current principal residence PITIA may be excluded in qualifying the borrower as long as the following documentation is provided:

- The executed sales contract for the current residence
- Confirmation is obtained to prove any financing contingencies have been cleared

Relocation Benefits

If the borrower is relocating and his new employment includes a relocation package where the former residence is purchased by the relocation company, the PITIA on an existing residence can be excluded from the borrower's recurring monthly debt obligations if the following are obtained:

- A copy of the executed buyout agreement for the existing residence
- At loan closing, a copy of the equity advance or a settlement statement evidencing the sale and release from liability is obtained for the loan file

For treatment of the employer-paid closing fees and other assistance see the Relocation section of the Asset chapter of this guide.

Debts Paid off Prior to or at Closing

Payoff or Paydown of Debt for Qualification

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
- If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.
- Documentation of *any* debt payoff must be included in the loan file. Verify that :
    - The borrower has the assets or sufficient equity to pay off the debt
    - Documentation has been provided to reflect the balance on any revolving debt being paid off. Options include:
        - Debtor statements / printouts or other documents that outline the current balance, account number, and mailing address for the payoff funds; or

        - Credit supplements that also provides the mailing address for the payoff funds; or
        - Credit report along with other documentation providing the mailing address for the payoff funds; or
        - Loan Quality Initiative Report. Use this option with caution. When this report is used to provide an updated balance for one or more liabilities being paid in full, it will reveal current balances for all liabilities. The updated balance for **each** liability referenced on the LQI report must be updated in Octane.
    - If the debt being paid off is an installment account, a payoff statement is required to reflect the balance being paid off.
    - The debt has been paid at or prior to closing
    - If the debt being paid off is a HELOC, verify that the account is closed.

Note: If borrowers are paying off debt to qualify on a rate and term or limited cash-out refinance, the debt must be paid prior to closing. Please see Ineligible Transactions in Chapter 4 | Eligible Transactions.

A borrower who increases debt and then periodically uses refinance or debt consolidation to reduce payments to a manageable level presents a higher degree of risk. The underwriter should consider the borrower's short-term and long-term ability to repay the Mortgage.

Smart document reference 184.000 - Current Billing Statement

Collections, Charge-Offs of Non-Mortgage Accounts, Judgments, and Liens

Delinquent credit including taxes, judgments, charge-offs of non-mortgage accounts, tax liens, mechanics' or materialmen's liens, and liens that have the potential to affect Cardinal's lien position or diminish the borrower's equity must be paid off at or prior to closing.

Medical collection accounts are excluded from the limits below and are not required to be paid in full at or prior to closing, for both AUS Accept/Eligible and manually underwritten loans:

- For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount.

Note: If the collection account is marked Paid By Close in the online loan application, DU will issue a message in the DU Underwriting Findings report stating that the collection must be paid.

- For two- to four-unit owner-occupied and second home properties, collections and non-mortgage charge-offs totaling more than $5,000 must be paid in full prior to or at closing.
- For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing.

Manually Underwritten Loans

For manually underwritten loans, non-medical collection accounts and charge-offs on non-mortgage accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than $250 or the total balance of all accounts is $1,000 or less. Non-medical collection accounts and charge-offs on non-mortgage accounts that exceed these limits must be paid off at or prior to closing.

AUS Processed Loans

See Chapter 6 | Credit | Conventional Lending Guide, Adverse Credit, AUS Processed Loans for more information and specific requirements.

References

Reference List
Payment Requirements

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record.

Date	Description	Approver
4.9.24	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature *Riptide* color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon

3.29.24	Added additional guidance under Business Debt in Borrower's Name outlining the requirements for documenting the business paid debt, along with guidance for identifying the debt in the cash flow analysis of the business. This is a clarification and effective immediately.	Ellen Clayson
11.3.23	Updated Freddie Mac guidance for student loans in income-driven repayment plans	Kristen Bellon
9.15.23	Updated Student Loan repayment guidance for Freddie Mac transactions	Kristen Bellon
9.14.23	Updated Qualifying Interest Rate section to allow ARMs with adjustment terms greater than 5 years to be qualified using only the Note rate	Kristen Bellon
8.29.23	Updated Tax Liability (Federal or State Income Taxes) section with additional clarification under Delinquent and Non-Delinquent Tax Liabilities	Kristen Bellon
7.10.23	Added Undisclosed Obligation section to define, identify sources where the obligation may be found, and what documentation is required	Ellen Clayson
6.23.23	Updated the Tax Liability section breaking out requirements for Delinquent Tax Liability for prior tax year and Non-Delinquent Tax Liability for current tax year	Kristen Bellon
6.6.23	Updated guidance under Freddie Mac Mortgage Assumptions for omitting the payment from the debt to income ratios when the borrower has not been released from the mortgage liability	Kristen Bellon
6.2.23	Removed guidance within Tax Abatement section and included link to Chapter 10 Property and Appraisal Requirements which houses additional direction	Kristen Bellon
5.30.23	Added Short-Term Debt Obligations section which provides guidance for buy now/pay later accounts such as Klarna, Affirm and Afterpay	Kristen Bellon
4.12.23	Updated Manually Underwritten Loans section to require certain unpaid collections and chargeoffs on non-mortgage accounts to be paid in full prior to closing	Kristen Bellon
4.12.23	Added medical collection accounts are not required to be paid off at or prior to closing for both AUS Accept/Eligible and manually underwritten loans	Kristen Bellon
3.23.23	Updated Homeowner's Association Dues section with additional verification method when documenting association dues	Kristen Bellon
3.22.23	Added additional guidance for documenting property taxes under Qualifying Impact of Other Real Estate Owned	Kristen Bellon
3.7.23	Revised calculation for property tax calculations for new construction properties in Texas and New Mexico	Ellen Clayson

2.24.23	Updated Real Estate Tax section for new construction using new functionality for projected taxes in qualifying, but allows current taxes to be used for closing if the borrower requests	Ellen Clayson
1.8.23	Added exception handling for property tax calculations for new construction properties in Texas and New Mexico	Ellen Clayson
12.29.22	Added section Excluding Debt Paid for by the Business when Self-Employment Income is not Used to Qualify	Kristen Bellon
12.13.22	Clarified documentation allowed to reflect revolving debt balance that is being paid off to qualify	Ellen Clayson
9.13.22	Added clarification for qualifying payment on Temporary Buydown plans	Ellen Clayson
5.23.22	Clarified that proposed tax amounts on new construction transactions will be derived from the CoreLogic Property Tax Estimate if a Tax Certificate cannot be obtained from the taxing authority.	Ellen Clayson
4.2.22	Clarified that a loan against a 401(k) reflected on the borrower's pay stub does not need to be included in the debt-to-income ratios	Kristen Bellon
12.14.21	Immaterial changes. Corrected grammar and formatting to align with company standards.	N/A
12.8.21	Clarified that monthly payments on debts secured by cryptocurrency must be included in the Borrower's debt payment-to-income ratio.	Kristen Bellon
9.20.21	Added clarification that Monthly Maintenance Fees on a timeshare property do not need to be included in the borrower's DTI	Kristen Bellon
8.18.21	Added guidance for documenting Owner's Association dues on PUD's or Condominiums	Kristen Bellon
7.23.21	Revised Freddie Mac guidance for 30-day (Open-ended) account balances	Kristen Bellon
7.6.21	Added effective with settlement dates on or after July 6th, 2021, Freddie Mac will no longer allow 5% of a 30-day (Open-ended) account balance to be used in qualifying DTI, the full balance must be used or deducted from the borrower's available liquid assets	Kristen Bellon
6.18.21	Added Excessive Liabilities section indicating that when the credit report reflects over 50 liabilities for DU or 45 liabilities for LPA, the loans are ineligible for delivery	Kristen Bellon

6.14.21	Added additional guidance for Escrow Waivers	Kristen Bellon
3.8.21	Added an exception on DU loans permitting the omission of a debt paid for by the borrower's business for less than 12 months	Kristen Bellon
01.12.21	Clarified in the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the debt may still be omitted with evidence that the outstanding balance has been brought current by the other party paying the obligation for FNMA transactions only. Freddie Mac will not consider a period of deferment or forbearance as part of a 12 month payment history	Kristen Bellon
11.20.20	Clarified funds in an amount equal to the balance on a 30-ay revolving account must be composed of liquid assets. Provided guidance from FNMA and Freddie Mac regarding the consideration of proceeds towards the 30-day account balance on a cash-out refinance transaction	Kristen Bellon
11.11.20	Updated HELOC section allowing 1.5% of the outstanding balance to be used to determine a qualifying payment for loans utilizing Freddie Mac	Kristen Bellon
11.6.20	Updated Qualifying Impact of Other Real Estate Owned to remove requirement for additional documentation to support the monthly payment of an Interest-only or below market ARM	Kristen Bellon
11.2.20	Added Rental Housing Payment section clarifying for Mortgages with a non-occupying Borrower and Mortgages secured by second homes and Investment Properties, when the Borrower does not own, but rents their principal domicile, the monthly rental housing payment for that principal domicile must be included in the calculation of the monthly housing expense-to-income ratio	Kristen Bellon
10.7.20	Updated guidance when including an installment debt with 10 months or less remaining payments in the qualifying ratios	Kristen Bellon
6.10.20	Provided clarification for Debts Paid by Others that in the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI	Ellen Clayson
5.7.20	Added guidance for a Paycheck Protection Program (PPP) loan issued by the SBA and clarified a payment does not need to be included in the qualifying ratios	Ellen Clayson
5.6.20	Updated Debts Paid by Others section with clarification that	Ellen Clayson

	the most recent and consecutive 12 months' canceled checks (or bank statements) must be obtained to omit a debt from the borrower's qualifying ratios	
2.16.20	Provided clarification when including an installment debt with payments less than 10 months remaining, the Months Left field in the Credit > Liabilities screen must be manually changed to greater than 10 months	Ellen Clayson
1.5.20	Provided guidance on acceptable documentation permitted to verify monthly HOA dues	Ellen Clayson
12.11.19	Added requirements under Bridge Loans for when the housing obligation may be excluded from the DTI	Ellen Clayson
11.26.19	Provided clarification on documentation required on other REO for the full PITI, including HOA dues	Ellen Clayson
11.17.19	Provided clarification that payments from solar panel leases or Power Purchase Agreements may be omitted from the qualifying ratios	Ellen Clayson
11.13.19	Clarified requirements for 401(k) loan reflected on the borrower's paystub	Ellen Clayson
11.5.19	Clarification provided for payment determination in Revolving Charge/Lines of Credit section	Ellen Clayson
10.8.19	Added Calculation of Alimony Debt for both FNMA and FHLMC	Ellen Clayson
9.18.19	Added Clarification for Assumption Guidelines	Ellen Clayson
8.29.19	Formatting Changes Made for Additional Clarity	Ellen Clayson
1.17.19	Calculating DTI on Student Loans for Freddie Mac	
10.30.18	Calculating DTI on Student Loans	Erica Price
6.19.18	Clarification to Tax Liabilities	Stephanie Camara-Ray
3.1.18	Clarified Authorized User Accounts, Clarification of Federal Tax Installment Agreements	Erica Price
10.30.17	Clarified court assignment of debt section removing requirement that on mortgage debt the borrower be removed from title. Modified Nonconforming installment debt treatment.	Erica Price
9.1.17	Initial Approval	Erica Price