

Clarification and New Policy for Student Loan Debts and Obligations

1. Purpose. The purpose of this Circular is to clarify and explain new policy regarding student loans for the underwriting of Department of Veterans Affairs (VA) guaranteed home loans.

2. Background. The policy in the Lender's Handbook- VA Pamphlet 26-7, chapter 4, section 5, paragraph G will now be titled Student Loans. The clarification will apply to deferred student loans and the new policy will provide guidance for student loans in repayment or, to begin repayment within 12 months of a VA loan closing. Student loans under certain repayment plan types are described at studentaid.ed.gov. This policy applies to all student loan repayment types.

3. How to Calculate a Student Loan Monthly Payment.

a. If the Veteran or other borrower provides written evidence that the student loan debt will be deferred at least 12 months beyond the date of closing, a monthly payment does not need to be considered.

b. If a student loan is in repayment or scheduled to begin within 12 months from the date of VA loan closing, the lender must consider the anticipated monthly obligation in the loan analysis and utilize the payment established in paragraph (1) or (2) below. Calculate each loan at a rate of 5 percent of the outstanding balance divided by 12 months (example: \$25,000 student loan balance x 5% = \$1,250 divided by 12 months = \$104.17 per month is the monthly payment for debt ratio purposes).

(1) The lender must use the payment(s) reported on the credit report for each student loan(s) if the reported payment is greater than the threshold payment calculation above.

(2) If the payment reported on the credit report is less than the threshold payment calculation above, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan(s). The statement(s) must be dated within 60 days of VA loan closing and maybe an electronic copy from the student loan servicer's website or a printed statement provided by the student loan servicer. It is the lender's discretion as to whether the credit report should be supplemented with this information.

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4. Rescission: This Circular is rescinded January 1, 2019.

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Director, Loan Guaranty Service

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