

# Understanding Loan Product Advisor's Determination of Total Monthly Debt for Conventional Loans



As indicated in Freddie Mac's *Single-Family Seller/Servicer Guide* (Guide) Section 5401.2, the Borrower's liabilities must be reflected on the Mortgage application and considered when qualifying the Borrower. For Loan Product Advisor® to accurately assess the Mortgage and determine the total monthly debt-to-income (DTI) ratio, all the Borrower's debts incurred through the Note Date must be reflected in the data submitted to the system. This includes debts from your review of the Mortgage application, credit report, Borrower's paystubs (if provided) and other file documentation in accordance with Guide requirements.

The accuracy of the DTI ratio calculated by Loan Product Advisor is dependent upon the accuracy of the data entered. This reference provides information to help you understand how the liability data entered in Loan Product Advisor is processed so you can ensure the completeness of the liability information being entered and reconcile any differences between Loan Product Advisor's DTI ratio and your DTI ratio for **conventional loans**.

**Note:** Vertical revision bars " | " are used in the margin of this quick reference to highlight new requirements and significant changes.

## Which liabilities are included in Loan Product Advisor's Total Monthly Debt?

Loan Product Advisor uses the information you provide to determine whether to include a liability in the Total Monthly Debt. All liabilities listed on the Mortgage application and other file documentation should be entered in Loan Product Advisor; however, certain liabilities may be excluded from Loan Product Advisor's Total Monthly Debt based on the liability type and how many payments remain, as described in Guide Section 5401.2. The table below lists each type of liability, its definition, and the number of months left to pay for Loan Product Advisor to include it in the Total Monthly Debt.

Loan Product Advisor Liability Type	Loan Product Advisor Definition	Included in Total Monthly Debt when <i>Months Left to Pay</i> is:
Alimony*	Periodic amount paid under terms of divorce decree/separation agreement.	11 or more
Child Support	Periodic amount paid to provide for children after divorce or separation.	11 or more
Home Equity Line of Credit (HELOC)	Monthly amount paid for financing that consists of a revolving line of credit secured by a lien.	Any
Installment	Periodic amount paid for borrowed money that is repaid in several successive payments, usually at regular intervals, for a specific amount and specified term (includes debts that are in a period of either deferment or forbearance; for example, a deferred student loan). Refer to Guide Section 5401.2(a) for options on determining the monthly payment amount for student loans.	11 or more

Loan Product Advisor Liability Type	Loan Product Advisor Definition	Included in Total Monthly Debt when <i>Months Left to Pay</i> is:
Lease Payment	Periodic amount paid under the terms of lease agreement (for example, an auto lease).	Any
Collections, Judgments and Liens	Periodic amount paid for a lien upon the property of a debtor resulting from a decree of the court.	Any
Mortgage	Monthly amount paid for a loan secured by a lien on real estate held in fee simple or on an acceptable leasehold estate (includes principal, interest, taxes and insurance and, when applicable, leasehold payments, homeowner association dues, etc.).	Any
Open (end) / 30 Day Charge Account	Periodic amount paid for borrowed money that is to be repaid in 30-day intervals (for example, an American Express account).	Any
Other Liability	A general category to disclose detail of other borrower liabilities.	Any
Revolving Charge	Periodic amount paid on a line of credit that is subject to variable payments in accordance with the balance (for example, a credit card).	Any
Separate Maintenance Expense*	Periodic amount paid under terms of separation agreement.	11 or more
Taxes	Periodic amount of local, state or federal taxes that are due.	Any

\* Effective July 6, 2019, Alimony and Separate Maintenance Expenses with 11 or more remaining payments are to be deducted from qualifying income and no longer included in the Total Monthly Debt. These payments should be entered as a negative amount in the Alimony/Child Support field of Loan Product Advisor. If the borrower is obligated to pay Alimony and/or Separate Maintenance but also receives Child Support income, subtract the Alimony and/or Separate Maintenance expense from the Child Support income and enter the result in the Alimony/Child Support field.

Loan Product Advisor also accepts the following liability types; however, they are not included in the Total Monthly Debt for conventional loans:

- **Child Care** - the periodic costs of providing care for the borrower's dependents.
- **Job related expenses** - the ongoing obligations incurred by the borrower which are prerequisite to retaining employment (e.g., professional associations, special uniforms or tools, etc.).
- **Other expenses/debts** - a general category to disclose detail of other borrower expenses and debts (for example, loans on financial assets).

Loan Product Advisor uses the data entered in the *Months Left to Pay* field, or in certain circumstances, derives a value for *Months Left to Pay* field to determine if the liability is included in the Total Monthly Debt. The *Months Left to Pay* field is **conditionally required** when the Liability Type is: Alimony\*, Child Care, Child Support, Job Related Expense, Other Expense or Separate Maintenance Expense\*.

Otherwise, the field is **not** required and Loan Product Advisor will derive the *Months Left to Pay* when no value is provided for the following Liability Types: HELOC, Installment, Lease Payment, Lien, Mortgage, Open / 30 Day Charge Account, Other Liability, Revolving Charge and Taxes. In the following example, Loan Product Advisor derived 10 *Months Left to Pay* based on the following information:

**(Unpaid Balance – Amount to be Paid Down) ÷ Monthly Payment = Months Left to Pay**

$$(\$1,250 - \$200) \div \$100 = 10 \text{ Months}^{**}$$

*\*\*The value of 10.5 months is rounded down to the next whole number.*

**Note:**

- If the calculation has decimal remainders, the system will round the value down to the next whole number.
- If the calculation goes over a three-numeric limit, the system will default *Months Left to Pay* to “999”.

In addition to data entered in the ***Months Left to Pay*** field, Loan Product Advisor also uses the information you provide for the following two indicators to determine if the liability is included in the Total Monthly Debt:

- ***Paid Off at or Before Closing?***
- ***Excluded?***

When entering data in Loan Product Advisor, if the liability will be paid off at or before closing in accordance with the applicable Guide requirements, “Yes” should be entered for ***Paid Off at or Before Closing?***. If the liability should be excluded from the Total Monthly Debt calculation for another reason as permitted by Guide Sections 5401.2, “Yes” should be entered for the ***Excluded?*** indicator.

If both the ***Paid Off at or Before Closing?*** and ***Excluded?*** indicators contain “No”, Loan Product Advisor evaluates the liability type and the ***Months Left to Pay*** data to determine whether to include the liability in the Total Monthly Debt. For example, if an installment loan has five months of payments remaining, Loan Product Advisor will exclude this liability from the Total Monthly Debt because the ***Months Left to Pay*** data indicates less than 11 months.

### How does Loan Product Advisor determine the debt for the DTI ratio?

When Loan Product Advisor determines the debt for the DTI ratio, additional liabilities such as housing expenses and other mortgage liabilities are also considered. The tables below provide a list of all Borrower debts used in determining the DTI ratio.

Type of Debt	Includes:
Proposed Monthly Housing Expense for the Subject Property	<ul style="list-style-type: none"> <li>▪ First Mortgage Principal and Interest</li> <li>▪ Other Financing Principal and Interest</li> <li>▪ Hazard Insurance</li> <li>▪ Real Estate Taxes</li> <li>▪ Mortgage Insurance</li> <li>▪ Homeowner's Association Dues</li> <li>▪ Other expenses related to housing which are not included in the listed values, excluding utility payments</li> </ul>

Type of Debt	Includes:
Non-Mortgage Liabilities	<p>Liabilities for all occupant and non-occupant borrowers:</p> <ul style="list-style-type: none"> <li>▪ Alimony*</li> <li>▪ Child Support</li> <li>▪ Installment</li> <li>▪ Lease Payment</li> <li>▪ Lien (includes collections, judgments and liens)</li> <li>▪ Open (end) / 30 Day Charge Account</li> <li>▪ Other Liability</li> <li>▪ Revolving Charge</li> <li>▪ Separate Maintenance Expense*</li> <li>▪ Taxes</li> </ul> <p><b>Note:</b> Refer to the <i>Which liabilities are included in Loan Product Advisor's Total Monthly Debt?</i> See section above for additional information on when the liability is included.</p> <p>*Effective July 6, 2019, Alimony and Separate Maintenance Expenses with 11 or more remaining payments are to be deducted from qualifying income and no longer included in the Total Monthly Debt. These payments should be entered as a negative amount in the Alimony/Child Support field of Loan Product Advisor. If the borrower is obligated to pay Alimony and/or Separate Maintenance but also receives Child Support income, subtract the Alimony and/or Separate Maintenance expense from the Child Support income and enter the result in the Alimony/Child Support field.</p>

Type of Debt	Includes:
Rent Payments reported under Present Monthly Housing Expense	Rent payment if it will continue after the Note Date. Examples include: <ul style="list-style-type: none"> <li>▪ Rent for non-occupant borrower's Primary Residence</li> <li>▪ Rent paid when the subject property is a second home or Investment Property</li> </ul> <p><b>Note:</b> If rent is apportioned among multiple borrowers, either enter the full rent under one borrower or apportion the rent across borrowers to avoid double counting.</p>
Mortgage Liabilities <i>(Liabilities remaining after the Note Date for all properties)</i>	<ul style="list-style-type: none"> <li>▪ <b>Rental loss for subject property:</b> Net rental loss for the subject property reported under the Income Type Subject Property Net Cash Flow.</li> <li>▪ <b>Rental loss for other properties:</b> The aggregate loss entered as a negative number in the Net Rental Income for all non-subject properties. The Net Rental Income is the net income (or loss) for each property on the Schedule of Real Estate Owned (REO) remaining after the Note Date; Loan Product Advisor sums the Net Rental Income/Loss by property and includes any loss as debt.</li> <li>▪ <b>Mortgage payment(s) when there is no rental income:</b> Mortgage and/or HELOC payments are included when:                             <ul style="list-style-type: none"> <li>○ The Gross Rental Income and Net Rental Income on the Schedule of REO details are not provided or equal to zero, and</li> <li>○ Not marked as "<i>Paid Off at or Before Closing?</i>" or "<i>Excluded?</i>", and</li> <li>○ The Property Disposition from the Schedule of REO is "<i>Rented</i>" or "<i>Retained</i>"</li> </ul> </li> <li>▪ <b>Insurance, Taxes, Maintenance and Miscellaneous</b> from the Schedule of REO is included when:                             <ul style="list-style-type: none"> <li>○ The Gross Rental Income and Net Rental Income from the Schedule of REO details are not provided or equal to zero, and</li> <li>○ The Property Disposition is "<i>Rented</i>" or "<i>Retained</i>"</li> </ul> </li> </ul> <p><b>Note:</b></p> <ul style="list-style-type: none"> <li>▪ To avoid double counting a liability amount, include only the amounts <b>not entered</b> as part of another Mortgage liability. For example, real estate tax payments included in the monthly Mortgage payment should not also be included as Insurance, Taxes, Maintenance and Miscellaneous in the Real Estate Owned details.</li> <li>▪ A Mortgage or HELOC associated with a Property Disposition of "<i>Sold</i>" or "<i>Pending Sale</i>" is not included in the debt. However, if a pending sale does not meet the criteria for omission from the debt, it must be resubmitted to Loan Product Advisor with a Property Disposition of "<i>Rented</i>" or "<i>Retained</i>".</li> </ul>

## Tips for Submitting Debts

The information below provides additional tips and example scenarios to indicate how Loan Product Advisor would process the data you submit to determine the Total Monthly Debt, along with tips for identifying and resolving data discrepancies.

- **Paid Off/Excluded Debt** - If the liability will be paid off at or before closing or is eligible to be excluded from the Total Monthly Debt for another reason, the debt may be marked as "Paid Off at or before Closing" or "Excluded", as applicable. Loan Product Advisor will exclude debts indicated as paid off or excluded from the Total Monthly Debt.
- **Number of Months Remaining** - In accordance with Guide requirements, Loan Product Advisor omits certain debts – for example, alimony\*, child support, installment, and separate maintenance expense\* – with less than 11 months remaining from the Total Monthly Debt. Loan Product Advisor will derive *Months Left to Pay* for the following Liability Types if a value is not provided: HELOC, Installment, Lease Payment, Lien, Mortgage, Open / 30 Day Charge Account, Other Liability, Revolving Charge and Taxes.
- **Liability Types** - Debts the Guide does not require be included in Total Monthly Debt – for example, child care, job-related expenses and other expenses/debts (such as loans on financial assets) – are omitted by Loan Product Advisor from the Total Monthly Debt.

Example Scenarios						
If the following information is provided...						Then Loan Product Advisor will...
Liability Type	Months Remaining	Monthly Payment	Paid Off?	Excluded?	REO Disposition	Include/Exclude Liability in Total Monthly Debt
Revolving	12	\$50	N	N	N/A	Include
Revolving	5	\$25	N	N	N/A	Include
Revolving	Any	\$75	Y	N	N/A	Exclude
Installment	11	\$100	N	N	N/A	Include
Installment	8	\$75	N	N	N/A	Exclude
Mortgage	158	\$1,800	Y	N	Sold	Exclude
HELOC	80	\$400	N	N	Pending Sale	Exclude
HELOC	80	\$400	N	N	Retained	Include

**Data Accuracy**

Data accuracy is critical to Loan Product Advisor's assessment. When differences exist, use the following tips to help you identify the discrepancy and, if needed, correct the data:

- Review the Loan Information Section for the Total Monthly Debt amount and the messages on the Loan Product Advisor Feedback Certificate to confirm the accuracy of the liabilities entered.
- For each liability, check to see if the **Paid Off at or Before Closing?**; **Excluded?**; and, if applicable, **Months Left to Pay** indicators in Loan Product Advisor properly reflect the information in the loan file and Guide requirements were met.
- For liabilities associated with the Borrower's Schedule of Real Estate Owned, check to see if the **Property Disposition** indicator in Loan Product Advisor properly reflects the information in the loan file and Guide requirements were met.
- Ensure the Subject Property Net Cash Flow, if applicable, accurately reflects the information in the loan file.

This document is not a replacement or substitute for the information found in the *Single-Family Seller/Service Guide* or terms of your Master Agreement or other Pricing Identifier Terms.

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