

# 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 loan application and considered when qualifying the borrower. For Loan Product Advisor® (LPA<sup>SM</sup>) to accurately assess the loan 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. This includes debts from your review of the loan 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 LPA is dependent upon the accuracy of the data entered. This reference provides information to help you understand how the liability data entered in LPA is processed so you can ensure the completeness of the liability information being entered and reconcile any differences between LPA's DTI ratio and your DTI ratio for **conventional loans**.

## Which Liabilities are Included in Loan Product Advisor's Total Monthly Debt?

LPA uses the information you provide to determine whether to include a liability in the Total Monthly Debt. All liabilities listed on the loan application and other file documentation should be entered in LPA; however, certain liabilities may be excluded from LPA's Monthly Debt based on the liability account 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 LPA to include it in the Monthly Debt.

### Liabilities – Credit Cards, Other Debts, and Leases that You Owe Section

Loan Product Advisor Liability Account Type	Loan Product Advisor Definition	Remaining Months:
<b>Child Support</b>	Periodic amount paid to provide for children after divorce or separation.	More than 10
<b>Installment</b>	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 <a href="#">Guide Section 5401.2(b)(i)</a> for options on determining the monthly payment amount for student loans.  Note: Timeshare loans are considered installment debts, regardless of how they are reported on the borrower's credit report. Maintenance fees associated with timeshares are not required to be included.	More than 10

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Loan Product Advisor Liability Account Type	Loan Product Advisor Definition	Remaining months:
<b>Lease Payment</b>	Periodic amount paid under the terms of lease agreement (for example, an auto lease). Regardless of the number of payments remaining (exception refer to <a href="#">Guide Section 5401.2(b)(6)</a> . <b>Exception:</b> Payments for solar panels subject to a lease agreement, power purchase agreement or similar type of agreement that meet the requirements of Guide Section 5401.2(c)(vi) may be excluded from the DTI ratio.	Any
<b>Open (end) / 30-Day Charge Account</b>	Periodic amount paid for borrowed money that is to be repaid in 30-day intervals (for example, an American Express account). *The full amount of the outstanding account balance <b>must be included, unless</b> the borrower has sufficient verified eligible source of 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.	Any*
<b>Other Liability</b>	A general category to disclose detail of other borrower liabilities.	Any
<b>Revolving Charge</b>	Periodic amount paid on a line of credit that is subject to variable payments in accordance with the balance (for example, a credit card). <b>Note:</b> In the absence of a monthly payment on the credit report, and if there is no documentation in the loan file indicating the monthly payment amount, <b>5%</b> of the outstanding balance <b>must be used</b> for the monthly payment amount.	Any
<b>Internal Revenue Service (IRS) installment agreements</b>	When the borrower is obligated on an installment agreement approved by the IRS for payment of past due federal taxes, the following requirements must be met: <ul style="list-style-type: none"> <li>▪ If there are more than 10 months of payments remaining on the installment agreement, the monthly payment must be included in the borrower's debt payment-to-income ratio, and</li> <li>▪ The Seller must obtain and retain in the mortgage file a copy of the installment agreement approved by the IRS. The installment agreement must reflect the payment terms and verify the monthly payment amount and balance, and</li> <li>▪ The Seller must document in the mortgage file that the borrower is not past due under the terms of the installment agreement, and</li> <li>▪ There must be no indication, and the Seller must have no knowledge, that the IRS has filed a Note of Federal Tax Lien for the taxes owed under the installment agreement.</li> </ul> <b>Note:</b> Refer to <a href="#">Guide Section 5401.2(b)(2)(ii)</a> when the borrower has applied for an installment agreement with the IRS that is pending IRS approval.	



**Reminder:** Alimony and Separate Maintenance Expenses with more than 10 remaining payments are to be deducted from qualifying income and no longer included in the Total Monthly Debt. When entering an alimony obligation in LPA, select, “Alimony” under “Income Type” in the “Other Income” section of the Borrower Info metro stop as a negative number. 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 income amount field (“+” or “-”) as applicable.

## Completing Data

LPA uses the data completed in the following fields to derive a value for months left to pay, and the information you provide, to determine if the liability is to be included in the Total Monthly Debt:

- Account Type
- Monthly Payment
- Unpaid Balance
- Paid off at or before closing?
- Exclude from Calculations?

When entering data in LPA, 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 ***Exclude from Calculations?*** (e.g. The **Account Type** is Child Support and there are 10 or fewer months of payments remaining).

**Note:** Even though both the ***Paid Off at or Before Closing?*** and ***Exclude from Calculations?*** indicators contain “No”, LPA evaluates the liability **Account Type** and calculates the months left to pay to determine whether to include the liability in the Total Monthly Debt. For example, if an installment loan has five months of payments remaining, LPA will exclude this liability from the Total Monthly Debt because the data indicates 10 or fewer months of payments remaining.

**Note:** Sources of funds used to pay off or pay down a debt in order to qualify for the loan must be documented in the loan file. When an unverified deposit is used to pay off or pay down an existing debt in order to qualify for the loan, the source of funds must be documented. Refer to Section 5401.2 and 5501.3.

Refer to [Guide Section 5401.2\(b\)](#) for more information on other liabilities that may be excluded from the monthly debt payment-to-income ratio (e.g., installment debts secured by financial assets\* (other than cryptocurrencies) in which repayment may be obtained by liquidating the asset, contingent liabilities, assumed mortgage, assigned debt, self-employed borrower’s debt paid by the borrower’s business, payments for solar panels subject to a lease agreement, PPA or similar type of agreement).

\* The loan secured by the financial asset must have been made by a financial institution. The Seller may consider only the portion of the funds that exceeds the loan balance as funds used to qualify the borrower for the mortgage transaction. See [Chapter 5501](#) for more information.



## Housing Expense and Mortgage Liabilities

When LPA determines the debt for the DTI ratio, additional liabilities such as housing expenses and other mortgage liabilities are also considered. The table below provides a list of the additional liabilities used in determining the DTI ratio.

Type of Debt	Includes:
Proposed Monthly Payment for the Subject Property	<ul style="list-style-type: none"><li>▪ First Mortgage Principal and Interest.</li><li>▪ Other Financing Principal and Interest (Subordinate Lien(s)).</li><li>▪ Property Hazard Insurance Premiums.</li><li>▪ Real Estate Taxes (refer to <a href="#">Guide Section 5401.1(a)</a> for documentation requirements when there is a partial or complete tax abatement, new construction/improvements or the borrower is exempt from real estate taxes).</li><li>▪ Mortgage Insurance Premiums, if applicable.</li><li>▪ Homeowner's Association Dues.</li><li>▪ Supplemental Property Insurance (e.g., flood insurance, earthquake insurance, etc.). <b>Note:</b> Effective for mortgages with Note Dates on or after September 5, 2024, but Sellers are encouraged to implement immediately: If a flood insurance policy on the mortgaged premises shows a full risk premium and a discounted premium, the full risk premium, plus any fees and surcharges, must be included.</li><li>▪ Other (expenses related to housing (e.g., special assessments, leasehold payments, financial subsidy, etc.) which are not included in the listed values, excluding utility payments.</li></ul>
Home Equity Line of Credit (HELOC)	<ul style="list-style-type: none"><li>▪ 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. Refer to <a href="#">Section 4204.1</a> for when documentation of HELOC terms is required and to <a href="#">Section 5501.3</a> when HELOC proceeds are used for the transaction.</li></ul>



## Housing Expense and Mortgage Liabilities (cont'd)

Type of Debt	Includes:
<p>Mortgage Liabilities (Liabilities remaining after the Note Date for all properties)</p> <p>Guide Section <a href="#">4201.15</a>, <a href="#">4201.16</a> and Guide <a href="#">Chapter 5306</a></p>	<ul style="list-style-type: none"> <li>▪ Refer to <a href="#">How to Enter Data for the Subject Investment Property and How to Enter Data for a Non-Subject Investment Property</a> job aids.</li> <li>▪ <b>Rental loss for subject property:</b> Net rental loss for the subject property is included in the total monthly debt-to-income ratio.</li> <li>▪ <b>Rental income/loss for other properties:</b> LPA sums the net rental income/loss and if the combined total net rental income/loss for all applicable rental properties is negative, LPA considers the loss as a liability and includes the amount in the total monthly debt-to-income ratio.</li> <li>▪ <b>Mortgage payment(s) for other properties when there is no rental income:</b> Mortgage and/or HELOC payments are included when: <ul style="list-style-type: none"> <li>○ The Disposition Status on the <i>Property You Own</i> section is “Retained”*</li> <li>○ The <b>Gross Monthly Rental Income</b> field on the <i>Property You Own</i> section equals zero. (<b>Note:</b> You <b>must</b> enter “zero” only in the Gross Monthly Rental Income field, do not leave blank), and</li> </ul> </li> <li>▪ Not marked as “Paid Off at or Before Closing?” or “Exclude from Calculations?”.</li> </ul>

**\*Note:** A mortgage or HELOC associated with a Disposition Status of “Sold” or “Pending Sale” is not included in the debt. However, if a pending sale does not meet the criteria for omission from the debt in accordance with the Guide, it must be resubmitted to LPA with a Disposition Status of “Retained”.

For borrowers being relocated pursuant to an employee relocation program, the monthly payment amount for the property pending sale may be excluded from the monthly debt payment-to-income ratio if the mortgage meets the requirements for mortgages made pursuant to an employee relocation program in Guide [Chapter 4408](#).



LPA 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).

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*
Installment	10.5	\$300	N	N	N/A	Include
Mortgage	158	\$1,800	Y	N	Sold	Exclude
HELOC	80	\$400	N	N	Pending Sale	Exclude
HELOC	80	\$400	N	N	Retained	Include
Child support	3	\$300	N/A	Y	N/A	Exclude

\*Exception: If a monthly lease payment must include regardless of the number of payments remaining, unless payments for solar panels subject to Guide Section 5401.2(c)(iv).



## Data Accuracy

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

- Review the Qualifying Ratios 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?*** or ***Exclude from Calculation?***; indicators in LPA properly reflect the information in the loan file and Guide requirements were met.
- For liabilities associated with the *Property You Own* section, check to see if the ***Disposition*** Status indicator in LPA properly reflects the information in the loan file and Guide requirements were met.
- For liabilities associated with the *Property You Own* section, once you have entered the *Property You Own* information check to see that you have entered the mortgage liability information associated with that property, if applicable, by selecting the **Actions** icon "Add Mortgage to Property" for LPA to properly reflect the information in the loan file and Guide requirements were met.
- For rental income/loss review the data completed in the *Property You Own* section for a purchase or refinance transaction to confirm the accuracy of the liabilities, and the ***Gross Monthly Rental Income*** and/or ***Net Monthly Rental Income*** fields, as applicable. For a purchase transaction, review the *Loan Property Info* section to confirm the accuracy of the data entered in the *Rental Income on the Property You Want to Purchase*.
- For entering debts that will be paid down, enter the account information twice: one entry to provide the amount the debt will be paid down in the ***Unpaid Balance*** field; and the second entry for the remaining balance in the ***Unpaid Balance*** field. You must enter the same account number in both entries. For more information refer to the, [How to Enter Paid Down Debt in Loan Product Advisor](#) job aid.

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