

Understanding Loan Product Advisor's Determination of Total Monthly Debt for FHA and VA Loans



The accuracy of the total monthly debt-to-income (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 **FHA and VA loans**.

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 using the following liability types:

Loan Product Advisor Liability Type	Loan Product Advisor Definition
Alimony	Periodic amount paid under terms of divorce decree/separation agreement.
Child Care	The periodic costs of providing care for the borrower's dependents.
Child Support	Periodic amount paid to provide for children after divorce or separation.
Home Equity Line of Credit (HELOC)	Monthly amount paid for financing that consists of a revolving line of credit secured by a lien.
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).
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.).
Lease Payment	Periodic amount paid under the terms of lease agreement (for example, an auto lease).
Collections, Judgments and Lien	Periodic amount paid for a lien upon the property of a debtor resulting from a decree of the court.
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).
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).

Loan Product Advisor Liability Type	Loan Product Advisor Definition
Other expenses/debts	A general category to disclose detail of other borrower expenses and debts (for example, loans on financial assets).
Other Liability	A general category to disclose detail of other borrower liabilities.
Revolving Charge	Periodic amount paid on an open line of credit that is subject to variable payments in accordance with the balance (for example, a credit card).
Separate Maintenance Expense	Periodic amount paid under terms of separation agreement.
Taxes	Periodic amount of local, state or federal taxes that are due.

The information you provide for the following two indicators is then used by Loan Product Advisor 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 and meets applicable FHA and/or VA 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 under FHA and/or VA requirements, “Yes” should be entered for ***Excluded?***. For example, if FHA and VA allow a certain liability to be excluded because less than ten months of payments remain, “Yes” should be entered for the ***Excluded?*** indicator.

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 table below provides 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"> ▪ First Mortgage Principal and Interest ▪ Other Financing Principal and Interest ▪ Hazard Insurance ▪ Real Estate Taxes ▪ Mortgage Insurance ▪ Homeowner's Association Dues ▪ Other expenses related to housing which are not included in the listed values, excluding utility payments
Non-Mortgage Liabilities	<p>Liabilities for all occupant and non-occupant borrowers:</p> <ul style="list-style-type: none"> ▪ Alimony ▪ Child Care ▪ Child Support ▪ Installment ▪ Job related expenses ▪ Lease Payment ▪ Lien (includes collections, judgments and liens) ▪ Open (end) / 30 Day Charge Account ▪ Other expenses/debts ▪ Other Liability ▪ Revolving Charge ▪ Separate Maintenance Expense ▪ Taxes <p>Note: Refer to the <i>Which liabilities are included in Loan Product Advisor's Total Monthly Debt?</i> section above for additional information on when the liability is included.</p>
Rent Payments reported under Present Monthly Housing Expense	<p>Rent payment if it will continue after the Note Date. Examples include:</p> <ul style="list-style-type: none"> ▪ Rent for non-occupant borrower's Primary Residence ▪ Rent paid when the subject property is a second home or Investment Property <p>Note: 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>

Type of Debt	Includes:
<p>Mortgage Liabilities <i>(Liabilities remaining after the Note Date for all properties)</i></p>	<ul style="list-style-type: none"> ▪ Rental loss for subject property: Net rental loss for the subject property reported under the Income Type Subject Property Net Cash Flow. ▪ Rental loss for other properties: 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. ▪ Mortgage payment(s) when there is no rental income: Mortgage and/or HELOC payments are included when: <ul style="list-style-type: none"> ○ The Gross Rental Income and Net Rental Income on the Schedule of REO details are not provided or equal to zero, and ○ Not marked as <i>“Paid Off at or Before Closing?”</i> or <i>“Excluded?”</i>, and ○ The Property Disposition from the Schedule of REO is <i>“Rented”</i>, <i>“Retained”</i> or <i>“Pending Sale”</i> ▪ Insurance, Taxes, Maintenance and Miscellaneous from the Schedule of REO is included when: <ul style="list-style-type: none"> ○ The Gross Rental Income and Net Rental Income from the Schedule of REO details are not provided or equal to zero, and ○ The Property Disposition is <i>“Rented”</i>, <i>“Retained”</i> or <i>“Pending Sale”</i> <p>Note:</p> <ul style="list-style-type: none"> ▪ To avoid double counting a liability amount, include only the amounts not entered 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. ▪ A Mortgage or HELOC associated with a Property Disposition of <i>“Sold”</i> is not included in the debt. A Property Disposition of <i>“Pending Sale”</i> is included in the Mortgage debt unless the applicable liability is marked <i>Paid Off at or Before Closing?</i> or <i>Excluded?</i>

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** - For FHA/VA loans, Loan Product Advisor does not automatically omit a debt based on number of months remaining. For Loan Product Advisor to omit a debt based on number of months remaining, the debt must be marked as “Paid Off at or before Closing” or “Excluded”. If the debt is not marked as paid off or excluded, it will be included in the Total Monthly Debt.
- **Liability Types** - All debts reported to Loan Product Advisor are included in the Total Monthly Debt unless marked as “Paid Off at or before Closing” or “Excluded” for FHA/VA loans. For example, if child care, job-related expenses or other expenses is not required to be included for the particular loan based on the FHA and/or VA Guide, then either do not report it, or report it, but mark it for exclusion.

Example Scenarios						
Liability Type	Months Remaining	Monthly Payment	Paid Off?	Excluded?	REO Disposition	Loan Product Advisor Total Monthly Debt
Revolving	12	\$50	N	N	N/A	Included
Revolving	5	\$25	N	N	N/A	Included
Revolving	Any	\$75	Y	N	N/A	Excluded
Installment	8	\$75	N	N	N/A	Included
Mortgage	158	\$1,800	Y	N	Sold	Excluded
HELOC	80	\$400	N	N	Pending Sale	Included

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?** and **Excluded?** indicators in Loan Product Advisor properly reflect the information in the loan file and applicable FHA and VA 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 applicable FHA and VA requirements were met. For example, if a property is listed on the Schedule of Real Estate Owned with a Property Disposition of "*Pending Sale*", and is associated with a Mortgage indicating that it will be paid off at or before closing, Loan Product Advisor will not count the liability in the DTI ratio.
- Ensure the Subject Property Net Cash Flow, if applicable, accurately reflects the information in the loan file.