2-11: TYPES OF LIABILITIES (10/03)

The following are types of liabilities that must be considered in qualifying borrowers:

A. **Recurring Obligations.** The borrower's liabilities include all installment loans, revolving charge accounts, real estate loans, alimony, child support, and all other continuing obligations. In computing the debt-to-income ratios, the lender must include the monthly housing expense and all other additional recurring charges *extending ten months or more*, including payments on installment accounts, child support or separate maintenance payments, revolving accounts and alimony, etc. Debts lasting less than ten months must be counted if the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after loan closing; this is especially true if the borrower will have limited or no cash assets after loan closing.

The following additional information deals with revolving accounts and alimony payments:

1. Revolving Accounts. If the account shown on the credit report has an outstanding balance, monthly payments for qualifying purposes must be calculated at the greater of 5 percent of the balance or $10 (unless the account shows a specific minimum monthly payment).

2. Alimony. Because of the tax consequences of alimony payments, the lender may choose to treat the monthly alimony obligation as a reduction from the borrower's gross income in calculating qualifying ratios, rather than as a monthly obligation.

B. **Contingent Liabilities.** A contingent liability exists when an individual will be held responsible for payment of a debt, should another party, jointly or severally obligated, default on that payment. Unless the borrower can provide conclusive evidence from the debt holder that there is no possibility the debt holder will pursue debt collection against him or her should the other party default, the following rules apply to contingent liabilities:

1. Mortgage Assumptions. When a borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by a property that has been sold or traded within the last twelve months without a release of liability, or is to be sold on assumption *without* a release of liability being obtained, contingent liability must be considered unless:

   a. The originating lender of the mortgage being underwritten obtains from the servicer of the assumed loan a payment history showing that mortgage has been current during the previous 12 months; or

   b. An appraisal or closing statement from the sale of the property supports a value that results in a 75 percent LTV ratio [i.e., the outstanding balance on the mortgage loan (minus any UFMIP, if applicable) cannot exceed 75 percent of the appraised value or sales price].

2. Cosigned Obligations. If the individual applying for an FHA-insured mortgage is a cosigner -- or is otherwise coobligated on a car loan, student loan, mortgage, or any other obligation -- contingent liability applies unless the lender obtains documented proof that the primary obligor has been making payments during the previous 12 months on a regular basis and does not have a history of delinquent payments on the loan.

C. **Projected Obligations.** If a debt payment, such as a student loan, is scheduled to begin within twelve months of the mortgage loan closing, the lender must include the anticipated monthly obligation in the underwriting analysis, unless the borrower provides written evidence that the debt will be deferred to a period outside this time frame. Similarly, balloon notes that come due within one year of loan closing must be considered in the underwriting analysis.

D. **Obligations Not Considered Debt.** Obligations not to be considered debt (or subtracted from gross income) include federal, state, and local taxes; FICA or other retirement contributions such as 401(k) accounts (including repayment of debt secured by these funds); commuting costs; union dues; open accounts with zero balances; automatic deductions to savings accounts; child care; and voluntary deductions.