



# FHA Underwriting Guide

## Chapter 2H Liabilities and Debt Ratios

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## 2H.1 Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITI.

- Principal and interest on the first mortgage loan
- Interest payments for Interest-only loans
- Subordinate financing payments on mortgages secured by the subject property
- Hazard insurance premiums
- Flood insurance premiums
- Real estate taxes
- Homeowners' association dues
- Leasehold payments
- Ground rent
- Special assessments with more than ten (10) months remaining
- Any other escrow payments

### 2H.1(a) Real Estate Taxes

For real estate taxes, an accurate estimate of monthly property tax must be used when qualifying borrowers. For new construction, property tax estimates must be based on the land and completed improvements, not just on the land value.

### 2H.1(b) Tax Abatements

Tax abatements are a temporary reduction in the actual amount of taxes that the owners of a property must pay. The abated amount may be used provided that:

- The abated amount can be documented with the taxing authority; and
- The abatement will remain in place for at least the first three years of the loan.

### 2H.1(c) Condominium Utility Expense

The portion of a condominium fees that is clearly attributable to utilities may be subtracted from the HOA fees before calculating qualifying ratios, provided the borrower provides proper documentation, such as statements from the utility company.

## 2H.2 Monthly Obligations/Manual

The total monthly debt obligations considered is the sum of the monthly housing expense of the borrower's



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primary residence plus all other monthly expenses incurred by the borrower. Any additional debt obtained as a result of a recent inquiry on the credit report must be included in the monthly debt obligation.

For Loans manually underwritten, closed-end debts do not have to be included in the qualifying ratio, if they will be paid off within 10 months from the date of closing and the cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income. Pay down of the balance to meet the 10-month requirement is not permitted.

Monthly expenses include:

- [Alimony and Child Support Payments](#)
- [Authorized User Accounts](#)
- [Business Debt](#)
- [Co-Signed Loans](#)
- [Court-Ordered Assignment of Debt](#)
- [Federal Debt](#)
- [Home Equity Lines of Credit](#)
- [Installment Debt](#)
- [Lease Payments](#)
- [Loans Secured by Financial Assets](#)
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- [Undisclosed Debt](#)



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## 2H.2(a) Alimony and Child Support Payments

### 2H.2(a)(i) Alimony

The borrower's gross monthly income should be reduced by the amount of the monthly alimony obligation in the gross monthly income calculation and not included as a debt unless the borrower will qualify with the alimony payment as a debt and not as income reduction.

### 2H.2(a)(ii) Child Support

Child support and other maintenance payments must be included in the DTI ratio.

A copy of the signed divorce decree, separation agreement, maintenance agreement or other legal order is required to document the payment and the number of remaining payments.

The borrower's paystubs covering no less than 28 consecutive days must be obtained to verify whether the borrower is subject to any order of garnishment relating to the alimony, child support or other maintenance.

The monthly obligation is determined by the greater of:

- The amount shown on the most recent decree or agreement establishing the payment obligation; or
- The monthly amount of the garnishment.

Review of the application and loan file documentation may require additional validation to determine child support obligations.

## 2H.2(b) Authorized User Accounts

All monthly debt obligations on authorized user accounts must be included in the DTI ratio unless there is documentation to evidence the primary account holder has made all required payments on the account for the previous 12 months. If less than three (3) payments have been required on the account in the previous 12 months, the payment amount must be included in the DTI ratio.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.



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## 2H.2(c) Business Debt

When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI ratio unless all of the following are considered:

- Documentation is provided to verify that the debt is paid by the business; and
- The debt was considered in the cash flow analysis of the business.

The debt is considered in the cash flow analysis where the borrower's business income Tax Returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the business income Tax Returns show an interest-expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

## 2H.2(d) Collection Accounts/Manual Underwrite

The following requirements apply to all loans, manually underwritten.

When a loan or debt has been submitted by the creditor to a collection agency, the credit report must be reviewed to determine if the cumulative outstanding collection account balances. If the cumulative total is \$2,000 or greater, the following is required:

- Evidence the debt is paid in full using an acceptable source of funds, or
- Verify the borrower has made payment arrangements with the creditor and include the payment in the DTI, or
- If a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection and include in the DTI Ratio.

## 2H.2(e) Co-signed Loans

When a borrower co-signs for a loan to enable another party to obtain credit, but is not actually repaying the debt, the borrower has a contingent liability.

The contingent liability must be included in the DTI ratio, unless there is documentation to evidence the co-obligor has been making payments for the last 12 consecutive months and the account is current with no history of delinquency during that time.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.



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## 2H.2(f) Court-ordered Assignment of Debt

When the borrower has an outstanding debt that was assigned to another party by a court order (e.g., divorce decree or separation agreement), and the creditor does not release the borrower from liability, the borrower has a contingent liability that must be included in the DTI ratio unless the divorce decree shows the ordering of the ex-spouse to make the payments. Evidence that the legally obligated party has made 12 months timely payments is not required.

A copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments is required.

The payment history of the debt need not be taken into consideration after the transfer date occurred or assignment to another party.

## 2H.2(g) Disputed Accounts/Manual Underwrite

The following guidelines apply to all loans that are manually underwritten.

### 2H.2(g)(i) Derogatory Credit Accounts

Disputed derogatory credit accounts refer to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

If borrower has \$1,000 or more collectively in disputed derogatory accounts, the monthly payment must be included in the debt calculation. The following are excluded from the cumulative balance:

- Disputed medical accounts; and
- Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

### 2H.2(g)(ii) Non-derogatory Disputed Accounts

Non-derogatory disputed accounts include the following account types:

- Disputed accounts with a zero balance;
- Disputed accounts with later payments aged 24 months or greater; or
- Disputed accounts that are current and paid as agreed.

If a borrower is disputing non-derogatory accounts or accounts which are not indicated on the credit report as disputed, review of the disputed accounts must be analyzed to determine effect on



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borrower's ability to repay.

If the dispute results in monthly debt payments being less than the amount indicated on the credit report, documentation must be provided to support the lower payments.

Federal debt refers to debt owed to the federal government for which regular payments are being made. The monthly payment must be included in the monthly debt obligation and DTI ratio.

Documentation from the federal agency evidencing the repayment agreement and verification that the payments are being made on time must be provided.

See Chapter 2A Loan Eligibility for complete eligibility when the borrower has federal debt.

## **2H.2(h) Home Equity Lines of Credit**

When the subject property has a home equity line of credit that has a balance and monthly payment, that payment must be considered part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment and there is no recurring monthly debt obligation, no monthly payment needs to be included in the recurring debt obligations.

If there are other open home equity lines of credit on the credit report with a zero balance, no monthly payment needs to be included in the recurring debt obligations.

## **2H.2(i) Installment Debt**

Installment debt not secured by a financial asset, including student loans, automobile loans, and timeshares, etc., must be included in the borrower's monthly debt obligations unless all of the following exist:

- There are fewer than ten months remaining as of the date of closing; and
- The cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income.

An installment debt with fewer than ten monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her monthly obligations.



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If the credit report does not include a monthly payment or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the payment on the loan agreement or payment statement may be used if properly documented.

A timeshare is considered an installment loan and not a mortgage debt.

### **2H.2(i)(i) Deferred Installment Debt**

Deferred debt, excluding student loans, must be included in the DTI ratio.

All of the following documentation must be provided:

- Written documentation of deferral from the creditor;
- Evidence of the outstanding balance;
- Evidence of the terms of the liability; and
- Evidence of the anticipated monthly payment obligation, if available.

The actual monthly payment must be used, when available. If the actual payment is not available, use the terms of the debt or 5% of the outstanding balance to establish the monthly payment.

For information about deferred student loans, see 2H.2(q) Student Loans.

### **2H.2(i)(ii) Pay Off or Pay Down of Debt**

Pay off or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

Paying off installment debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing. Source of funds must also be documented.

Paying down installment debt to fewer than ten months to qualify for the mortgage is not permitted.

### **2H.2(j) Lease Payments**

Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.



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### **2H.2(k) Loans Secured by Financial Assets**

Loans secured against deposited funds (signature loans, cash value of life insurance policies, 401(k) accounts, etc.) where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the borrower's assets, do not require consideration of repayment for qualifying purposes.

If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

See Chapter 2G Assets, 2G.3 (i) Loans Secured by Financial Assets for documentation requirements.

### **2H.2(l) Mortgage Assumptions**

When the borrower sells a property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability (PITI) that must be included in the borrower's recurring monthly debt obligations unless there is documentation to evidence the co-obligor has been making payments for the last 12 consecutive months and the account is current with no history of delinquency during that time.

All of the following documentation must be provided:

- Assumption agreement or agreement creating the contingent liability; and
- Deed showing transfer of title out of the borrower's name.

### **2H.2(m) Negative Income**

Negative income must be subtracted from the borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.

### **2H.2(n) Non-borrowing Spouse Debt in Community Property States**

Non-borrowing spouse debt refers to debt owed by a spouse that are not owed by, or in the name of the borrower.



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A non-borrowing spouse may be required to sign either the security instrument or documentation evidencing that he or she is relinquishing all rights to the property if required by state law in order to perfect a valid and enforceable first lien, as is the case in some community property states. If the non-borrowing spouse executes the security instrument, they are not considered a borrower for underwriting purposes and need not sign the loan application or Note.

In all other cases, the non-borrowing spouse must not be on the security instrument or take title to the subject property.

If the property is located in a community property state, or the borrower resides in a community property state, and non-borrowing spouse obligations are not excluded by state law, the following requirements must be complied with:

- A credit report for the non-borrowing spouse is required to determine any joint or individual debts and to determine the DTI ratio for the borrower. The credit report for the non-borrowing spouse should not be a joint report, it should be obtained separately;
- Obtain and document authorization from the non-borrowing spouse to pull a separate credit report. If the non-borrowing spouse refuses to provide authorization for the credit report, the loan must be rejected;
- Even if the non-borrowing spouse does not have a social security number, the credit reporting company should verify that the non-borrowing spouse has no credit history and no public records against them;
- Include the actual monthly payment obligation of the non-borrowing spouse in the DTI ratio calculation, except for obligations specifically excluded by state law. If the actual monthly payment is not available, calculate the monthly obligation by using the terms of the debt or 5% of outstanding balance;
- All open judgments and liens, including those of the non-borrowing spouse, must be resolved prior to closing;
- Disputed debts of the non-borrowing spouse need not be counted with acceptable documentation of the dispute;
- Credit history of the non-borrowing spouse should not be the sole basis for declining the loan;
- The credit report is for the purpose of establishing debt only and is not submitted to TOTAL for the purpose of credit evaluation;
- The credit for the non-borrowing spouse may be traditional or non-traditional; and



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- The loan file must reference the specific state law that justifies the exclusion of any debt from consideration.

Known Community Property States	Community Property State Laws are Effective When	Include Debts in DTI	Exclude Debts from DTI if Acquired Prior to Marriage	Statutory Authority
Arizona	Married and domicile in same state	Yes	No	ARIZ. REV. STAT. ANN §25-13(A)
California	Married and domicile in same state	Yes	No	CAL FAM. CODE DIV. 4 Pt. 3 Ch. 2 §913(b)(1) and CAL FAM. CODE DIV. 4 Pt. 3 Ch. 2 §1612(a)(1)
Idaho	Married and domicile in same state	Yes	No	IDAHO CODE ANN. §§ 32-903 and 32-923(h)
Louisiana	Married and domicile in same state	Yes	No	LA CIV. CODE ANN. Arts. 2523 and 3526(2)
Nevada	Married and domicile in same state	Yes	Yes	NEV. REV. STAT. §123.130
New Mexico	Married and domicile in same state	Yes	No	N.M. STAT. 40-3-9
Texas	Married and domicile in same state	Yes	Yes	TEX. FAM. CODE ANN. §§ 3.001 and 4.003(1)
Washington	Married and domicile in same state	Yes	Yes	WASH. REV. CODE §26.16.010
Wisconsin	Married and domicile in same state	Yes	Yes	WIS. STAT. §766.31(8)



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### **2H.2(o) Other Real Estate Owned**

Mortgage payments and related expenses must be included in the borrower's recurring debt obligations. This includes mortgage payments and related expenses on any property that is currently pending sale (not closing prior to subject transaction), or a property retained as a second home or investment property.

Determine the aggregate net negative rental income from all rental properties for qualification.

When the loan application reflects that the borrower owns other real estate free and clear of mortgage liens or encumbrances, documentation must be provided to evidence free and clear status of the property. The borrower must qualify with taxes, property insurance, homeowners' association dues/fees (if applicable), and any other related expenses, which must be documented.

### **2H.2(p) Private Savings Clubs**

Private savings clubs are a non-traditional method of saving by making deposits into a member-managed resource pool.

If the borrower is obligated to make ongoing contributions under the pooled savings agreement, the monthly payment amount must be included in the borrower's monthly debt obligations.

The establishment and duration of the borrower's membership in the club and the amount of the required contribution must be documented.

### **2H.2(q) Revolving Charges/Lines of Credit**

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. These trade lines include credit cards, department store charge cards, and personal lines of credit.

If the credit report does not show a required minimum payment amount and the current account statement is not provided, use 5% of the outstanding balance as the recurring monthly debt obligation.



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## 2H.2(q)(i) Payoff Revolving Debt for Qualification

Payoff of debt to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

- Paying off revolving debt is permitted prior to or at closing. The Closing Disclosure must reflect pay off of the outstanding balance when paid off at closing.
- Document funds came from an acceptable source and no new debt was incurred. The account does not have to be closed.

## 2H.2(q)(ii) Open 30-Day Charge Accounts

A 30-day charge account refers to a credit arrangement that requires payment in full on the account every month.

Verification must be provided to evidence that the borrower paid the outstanding balance in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly are not included in the borrower's monthly debt obligations. If the credit report reflects any late payments in the last 12 months, 5% of the outstanding balance must be calculated and included in the DTI ratio.

The credit report must be used to document that the borrower has paid the balance each month for the prior 12 months and to document the outstanding balance.

There must be sufficient funds to pay off the balance in excess of the funds and reserves required to close the loan.

## 2H.2(r) Student Loans

All student loans must be included in the DTI, regardless of the payment type or status of payments.

If the payment used for the monthly obligation is less than the monthly reported on the credit report, obtain the following from the student loan servicer:

- Written documentation of the actual monthly payment;
- Payment status;



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- Evidence of the outstanding balance; and
- Evidence of the terms of the student loan from the creditor.

To calculate the monthly payment, use one of the following:

- The payment reported on the credit report; or the actual documented payment, when the payment amount is above zero; or
- 0.5% of the outstanding balance, when the monthly payment reported on the credit report is zero.

The monthly payment may be excluded in the DTI when documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

### 2H.2(s) Undisclosed Debt

Refer to Chapter 2F Credit; 2F.5(a) Undisclosed Debt Other than a Mortgage and 2F.5 (b) and Undisclosed Mortgage Debt.

### 2H.3 Obligations Not Considered Debt

Obligations not considered debt include:

- Automatic deductions from savings, when not associated with another type of obligation
- Charge-off accounts
- Childcare
- Collateralized loans secured by depository accounts
- Commuting costs
- Federal, state, and local taxes, if not delinquent and no payments are required
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- Insurance, other than property insurance
- Medical collections
- Open accounts with zero balances
- Utilities
- Union dues



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- Voluntary recurring debt or deductions, when not associated with another type of obligation

Revision History	Date
<p>Updated Payoff Revolving Debt for Qualification to reflect the following:</p> <ul style="list-style-type: none"> <li>• <b>Paying off revolving debt is permitted prior to or at closing. The Closing Disclosure must reflect pay off of the outstanding balance when paid off at closing.</b></li> <li>• Document funds came from an acceptable source and no new debt was incurred. The account does not have to be closed.</li> </ul> <p>And remove these prior requirements:</p> <ul style="list-style-type: none"> <li>• For purchase and rate &amp; term refinance transactions, the account must be paid in full (paying down to zero balance) prior to closing. Provide documentation from the creditor and/or updated credit supplement prior to closing showing the account paid in full.</li> <li>• For cash-out refinance transactions underwritten by Newrez, paying off revolving debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing.</li> </ul>	<p>01.22.2026</p>