



first community mortgage

# WHOLESALE ANNOUNCEMENT 2021-4

March 1, 2021 *(Revised 3.5.21)*

## Guideline Update

### “Paying Down” and Paying Off” Accounts Installment Debt

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#### Updated Guideline Section:

- **Conventional Guidelines-Sections**
  - **1.08.10- Installment Debt**
  - **1.08.15- “Paying Down” Accounts and “Paying Off” Accounts**

#### Guideline Verbiage Removed:

##### Section 1.08.10

All installment debts not secured by a financial asset with 10 or more remaining payments must be included in the borrower’s debt ratios unless otherwise excluded for another satisfactory reason. Installment debts with less than 10 remaining payments may be excluded from the borrower’s debt ratio under certain circumstances. These payments may still be required by the underwriter if they deem the existing payment could have an adverse effect on the borrower’s repayment ability.

##### Section 1.08.15

Paying down debt for the purpose of qualifying for the loan is not acceptable.

Paying off debt at or prior to closing, either installment or revolving, is acceptable if:

- Funds used to pay off the debt are documented, sourced, and received from either the borrower’s own funds or other acceptable party.

#### Guideline Verbiage Added:

##### Section 1.08.15

FCM does not allow paying down of revolving or installment debts to qualify. (see FCM Overlays)

Installment loans being paid off do not need to be included in the borrower’s long-term debt with the exception of Lease Payments (see Section 1.08.04)

If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower’s long-term debt and does not need to be included in the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

Funds used to payoff Revolving or Installment debt must be documented, sourced, and must be from the borrower’s own funds or other acceptable party.