How Student Loan Debts Impact Home Ownership

Posted on October 13, 2014 by Keller Williams Realty International — No Comments ↓

There is a special category of life's firsts. First kiss. First job. Going away to college. Buying your first home. Walking into your own home for the first time is one of the magical firsts people dream of. Having no prior experience, many first-time home buyers rely on their real estate agent and mortgage lender to help guide them through the process. As market experts, agents must be prepared to answer buyers' questions, including, "Can I afford this house?" The answer is more detailed than just looking at income and listing price. There are multiple factors that affect affordability. A factor that has recently become more important in determining whether or not a person can purchase a home is the amount of their student loan debt.

With total student debt in the country increasing and income remaining static, the ability of recent graduates to save for a home has likely been negatively impacted. Between 2003 and 2014, the total amount of student loan debt more than quadrupled, from $241 billion to $1.1 trillion. The average student loan debt for the 71 percent of college graduates who took out loans is $29,400. This increase has had an impact on the housing market, especially home purchase timelines for these would-be first-time buyers.

To qualify for a loan, most mortgage lenders generally require that a borrower's debt-to-income ratio be 43 percent or less. This means that a recent graduate earning the median income and carrying a loan balance of $29,400 at 6.5 percent interest would have a monthly loan payment of $333. This would account for 8 percent of their monthly debt-to-income ratio, leaving less room for other debts such as car loans and credit card debt. This also means their income will likely need to be slightly higher to offset the debt.

In 2013, the National Association of REALTORS® (NAR) conducted a housing market survey of 2,000 Americans. Half of the respondents reported that student loan debt was a "huge obstacle to home ownership." In February, 2014, Lawrence Yun, chief economist at NAR, said that for the last six months, fewer than 30 percent of all home purchasers were first-time buyers, compared with the long-term average of 40 percent. Additionally, according to the U.S. Census Bureau, the home ownership rate among people under the age of 35 has declined to 36.2 percent from a record 43.6 percent 10 years ago.

When analyzing the decrease in home ownership for first-time buyers under the age of 35, it would be incomplete to point the finger solely at student loan debt. Social factors are also contributing to the change. Fewer millennials (those who are 18-33 years of age) are getting married and starting families, which is one of the primary reasons most purchase their first home. Additionally, as the nation continues to recover from the Great Recession, many young adults are living with their parents as they pay down their debt and gain workforce experience. Despite all these hurdles to making the leap to home ownership, it remains possible and can be a reality.