NAR Issue Summaries

Conventional Residential Lending / Student Loan Debt

NAR Committee:

Conventional Financing and Policy Committee

What is the fundamental issue?

Research continues to indicate that the continued rise in student debt along with a weak labor market has a long-term impact on the ability of first-time homebuyers, particularly lower income consumers, to qualify for mortgages. Many of these potential borrowers find a significant portion of their total monthly debt is comprised of student loan payments.Additionally, lower price point homes available to purchase are at historical lows which further price out potential buyers with student loan debt as home prices continue to rise. While much of the research and focus has been on the impact to Millennial borrowers, new studies are showing that student loan debt burdens borrowers of all generations, including Baby Boomers and Generation-X consumers who are shouldering the weight of the student debt for their children or their own after returning to college post-recession.

I am a real estate professional. What does this mean for my business?

NAR research indicates that student debt negatively impacts the ability of potential home buyers to save for or meet down payment requirements. Student debt is also having an impact on potential homebuyers' ability to qualify for a home due to high debt-to-income levels. These factors have limited their access to affordable mortgage options needed to purchase a home. Though a vast majority of borrowers have been responsible and diligent in making their student loan payments, their ability to save for priorities such as emergency savings, medical expenses, and down payments have become more difficult and impact their decisions such as purchasing a home.

NAR Policy:

NAR strongly supports policy proposals to allow student loan borrowers to refinance into lower interest rates and to streamline loan programs. Additionally, NAR supports policy proposals that promote student loan simplification,clarity andeducation. Further, NAR supports policies that provide tax relief to student debt holders, as well as to employers who choose to assist with their employees' student loan debt burdens. In addition, NAR supports policies that provide tax relief to those borrowers with forgiven student debt. NAR also shall ensure that mortgage underwriting guidelines related to student loan debt are standardized and do not impair homeownership.

Opposition Arguments:

Some believe that stagnant wage and job growth is hindering the housing market, not rising student loan debt. Others also believe the problem is related to saving and fiscal discipline where younger generations do not have the accumen or ability to build savings for down payments or closing costs.

500 New Jersey Avenue, NW
Washington, DC 20001
(800) 874-6500
nar.realtor

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Legislative/Regulatory Status/Outlook

Over the past decade, lawmakers in both parties proposed changes to the student loan program to deal with the large outstanding debt.

Democrats backed measures that would cap the burden on borrowers. Republicans argued that college graduates earn more than non-graduates and should be able to pay off their loans. However, Republicans were willing to simplify the federal loan system and they advocate giving borrowers more clarity about the debt and their ability to pay it back. Also, some Members of Congress seemed interested in tax changes to assist those paying off student loans.

The CARES Act, passed during the pandemic, allows employers to pay up to $5,250 toward student loans on behalf of employees while the employees would not owe U.S. federal income taxes on the payments. This plan has been extended to 2025. While take-up of the plan has been slow to start, the incentive may become more attractive to employers as they try to attract talent in the current, turbulent job market.

The administration and relevant agencies continued to make changes to the Public Service Loan Forgiveness program which relieves federal student loans for those serving at non-profits or in public service. Many of the reforms were blocked by the Supreme Court.

In response to the COVID-19 pandemic, the Department of Education has paused federal student loan payments, with the latest pause extended to late 2024.

The Biden administration evaluated its options for student debt relief. The progressive block of the Democratic party pushed for some form of student debt cancellation, with some calling for all student debt to be relieved and others setting a cap. President Biden attempted multiple paths to eliminating or reducing some student loan debt. However, the courts struck down all attempts.

Given the change in administration and from statements during the campaign, we do not expect President Trump to pursue any student debt forgiveness or cancellation.

Current Legislation/Regulation (bill number or regulation)

None at this time.

Legislative Contact(s):

Matt Emery, MEmery@nar.realtor, 202-383-1212
Ken Fears, kfears@nar.realtor, 202-383-1066

Regulatory Contact(s):

Matt Emery, MEmery@nar.realtor, 202-383-1212
Ken Fears, kfears@nar.realtor, 202-383-1066