NATIONAL ASSOCIATION of REALTORS®

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June 24, 2014

The Honorable Jeff Merkley
Chairman
Subcommittee on Economic Policy
Senate Committee on Banking, Housing, & Urban Affairs
313 Hart Senate Office Building
Washington, DC 20510

The Honorable Dean Heller
Ranking Member
Subcommittee on Economic Policy
Senate Committee on Banking, Housing, & Urban Affairs
324 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Merkley and Ranking Member Heller:

On behalf of the one million members of the National Association of REALTORS®, thank you for scheduling tomorrow's hearing on "Dreams Deferred: Young Workers and Recent Graduates in the U.S. Economy." As advocates for our communities, REALTORS® witnessed first-hand the pain faced by many families throughout the most recent economic recession. As our neighbors aimed to provide for their families and their futures, many unfortunately were faced with increasing debt of all types. It is how this debt impacts the future of homeownership in this country which concerns our membership and why ballooning student loan debt is increasingly a threat to the future of homeownership.

For decades, the purchase of a first home was the hallmark of middle class arrival and the foundation of financial security for aspiring families. Steadily growing homeownership rates were seen as a proxy for the nation's progress in making the American Dream a reality for as many Americans as possible. Moreover, broad-based homeownership exemplified the uniquely American sentiment that ordinary people could control their own destinies and move ahead through hard work and responsibility. Today, young professionals and working families face a number of challenges that previous generations did not, including rising student loan obligations. In particular, the traditional path that college graduates follow from graduation to shared apartments to saving money for their first home is becoming harder and harder to traverse.

REALTORS® are seeing the real world impact of increasing levels of student debt on our communities. Historically, first time homebuyers have been the lynchpin of the housing market, comprising roughly 40 percent of homebuyers in the market place. Unfortunately, this number has been declining at an alarming pace. At this same time, student loan debt has significantly increased. The rapid increase in student loan debt may be a significant factor in these potential first time homebuyers' decisions to delay a home purchase since student loan payments may have hindered their ability to save the downpayment necessary to purchase a home. According to a recent NAR survey, 20 percent of first time home buyers in today's market indicated that saving up for a downpayment delayed the purchase of their home. Of those, 53 percent stated that student loan debt was a key factor for that delay. We are very concerned that these numbers may continue to rise in the future. In addition to increased debts, prospective first time homebuyers face a weak job market and income growth potential, which may further delay their entry into the housing market.

As our housing market continues to heal from the economic crisis of the last several years, current and prospective homeowners are faced with the reality of an increasingly tight regulatory space that is contributing to a constriction of credit in the housing finance area. We believe that rising student debt may impact consumer access to mortgage credit, their ability to save for downpayments, and more broadly, attain homeownership. More specifically, a significant aspect of the recently finalized Qualified Mortgage (QM) standard is a requirement that borrower payments on all debts, including those for their mortgage, car and student loan payments, be 43 percent or less of their total income. Though it may be a reasonable standard in many instances, the continued rise in student debt and the weak labor market may have a long term impact on the ability of many first time homebuyers to qualify under this standard, particularly lower income consumers. Many of these potential borrowers will find their student loan payments are a significant portion of their total monthly debt burden. As a result, many community banks and lenders will choose not to approve mortgage loans to a large number of these responsible and otherwise qualified borrowers. This scenario impacts not only those hoping to purchase their first home, but also homeowners looking to trade up to larger homes or refinance their existing mortgages.

The pending Qualified Residential Mortgage (QRM) rule could also have a significant impact on mortgage availability and is of great concern to REALTORS®. Recently, the six regulators responsible for finalizing the definition of a QRM proposed an alternate definition which includes a 30 percent downpayment requirement. We believe that should regulators adopt this flawed definition, consumers unable to save for a downpayment due to growing debt burdens will be denied access to reasonable and affordable mortgages. Although a vast majority of these prospective borrowers are responsible and diligent in making their student loan payments, the ability of today's borrowers to save may become more difficult due to medical expenses, downpayments, and the need for emergency savings. We estimate that it would take average consumers over 20 years to meet this requirement and it would be extremely damaging to the housing market and homeownership overall. We will continue to work with regulators to ensure a sound and viable housing finance regulatory system is in place which allows for all qualified Americans to attain the dream of homeownership.

We look forward to working with you in protecting the dream of homeownership for responsible young Americans, including those with rising student debt. We are committed to being a resource to Congress as it continues to work on this issue and others that will help protect our real estate markets and continue to rebuild our economy.

Sincerely,

Steve Brown

Steve Brown
2014 President, National Association of REALTORS®

cc: Members of the Subcommittee on Economic Policy