

YOUNG LAWYERS

BY PETER P. HANDY, ESQ.



Student Loans Will Change the Way you Buy a House

Home ownership — whether you view it as an investment or just want to be free from a landlord — is likely to be one of the first major assets that you purchase as a young lawyer. The Federal Reserve has estimated that, for each \$1,000 increase in student loan debt there results in a 1-2 percent decrease in the home ownership rate among people between 24 to 32 years of age.¹

According to Above the Law, somewhere around 2 million Americans owe \$100,000 or more in student loan debt.² With the median price of homes sold in Nevada now being about \$288,400,³ debt incurred during law school is likely to cost almost as much as purchasing a home, which presents a wealth of challenges for keeping your budget, and your life, balanced.

Let me begin as any attorney should, with a disclaimer: I am not an accountant, certified or otherwise, nor am I a banker, lending agent, broker, financial planner, tax preparer, guru or life coach. None of what follows is advice of any kind, just my two cents based on my personal experience of buying a home with what is seems like insurmountable student loan debt. This article will discuss one narrow aspect of the home-buying experience, the debt-to-income ratio, and how student loan debt affects the debt-to-income ratio and the ability of a homebuyer to prove it.

Purchasing a home can be an onerous process. You're probably sure you know where to start — by setting a

budget for yourself. Doesn't it just come down to one question: What kind of payment will I be able to make during the next 15 to 30 years? Before you rush to an online loan payment calculator, you should first consider your debt-to-income ratio.

When considering whether to put up the money on your behalf to purchase a house, lenders will want to determine your debt-to-income ratio, or DTI.⁴ A DTI is usually expressed as a percentage, being the portion of your monthly income being reduced by debts. Some types of loans have a minimum DTI, such as a Federal Housing Administration (FHA) loan, and lenders will require that your debt not exceed the minimum percentage of your income. Remember, your debt will include not only your expected home loan payment, but also insurance and taxes on the home, as well as any recurring debts, such as car payments and recurring accounts such as credit cards and other loan payments.

If you are a recent law school graduate, you probably owe more in student loan debt than you had anticipated and are working for less than you had hoped.⁵ You may need to decrease your monthly student loan payment to qualify for decent rates or particular loan types. Consider loan consolidation⁶ and/or opting for an extended or income-based repayment to lower your monthly payment, which will lower your DTI and increase the likelihood of eligibility for more attractive loans and rates.⁷ If you need to reduce other debts you have already incurred, you may want to do this a while before you make the decision to buy a home in order to free up funds to pay down those debts.

Once you've reduced your DTI, found your perfect home, and worked with a lender to get them to offer you a loan you are willing to accept, you will need to prove your ability to make the payments at the DTI you have dedicated so much time and effort establishing, including obtaining a loan verification letter (also called a credit reference letter) from your loan servicer. The letter is a snapshot statement that provides the current payoff amounts of the loans, and the outstanding principal and interest amounts, as well as your monthly payment obligation.⁸ This letter has become easier to obtain in recent years, often being available on request from your servicer's website.⁹ However, if you are on an income-based repayment plan, you may need to apply for re-certification at the time you need to provide the letter — or you may end up with what I received — a letter that showed my income-based payment for the upcoming four months (until recertification was required) and eight more months at the 10-year repayment rate, which was substantially higher. Call, chat and/or e-mail your servicer to get what you need, and be relentless — your loan servicer may not know your home-loan lender's exact needs, and it may take some time to find a customer assistance agent who understands your request and can be amenable to your schedule. With time and effort, eventually you should be able to get the proof you need that will satisfy your lender.

As attorneys, we are sure we already have most answers and if not, we can negotiate any unforeseen problem — but you should get help. Purchasing a home can be extremely stressful,¹⁰ but you can get help in dealing with student loan

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servicers and underwriting requirements. In addition to real estate and financial professionals, your family, friends, colleagues, bar magazine and the internet can provide insight, knowledge and support in your quest to close the purchase of your home. **NL**

1. Board of Governors of the Federal Reserve System, *Consumer & Community Context*, Jan. 2019, Vol. 1, No. 1.
2. Staci Zaretsky, *Will You Ever Be Able To Pay Off Your Law School Debt?*, Above the Law, Sep. 26, 2017, available at <https://abovethelaw.com/2017/09/will-you-ever-be-able-to-pay-off-your-law-school-debt/?rf=1> (last accessed May 3, 2019).
3. Zillow, *Nevada Home Prices & Values*, available at <https://www.zillow.com/nv/home-values/> (last accessed May 3, 2019) (relaying data obtained through Mar. 31, 2019).
4. Consumer Financial Protection Bureau, *What is a debt-to-income ratio? Why is the 43% debt-to-income ratio important?*, available at <http://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-to-income-ratio-why-is-the-43-debt-to-income-ratio-important-en-1791/> (last accessed April 30, 2019).
5. Rob Bertman, *Lawyers Graduate with More Student Debt and Less Income Than Expected*, Student Loan Planner, updated Apr. 29, 2019, available at <http://www.studentloanplanner.com/lawyers-graduate-with-more-school-debt-less-expected-income/> (last accessed May 3, 2019).
6. If you are hoping for debt relief through PSLF, this option may jeopardize your eligibility. See, e.g., Annie Nova, *The public service loan forgiveness fix isn't going well*, CNBC, available at <http://www.cnbc.com/2018/10/29/this-public-service-loan-forgiveness-remedy-isnt-reaching-many-people.html> (last accessed April 30, 2019).
7. Many of these options will increase the amount paid in interest over the life of the loan. Visit <http://www.studentloans.gov> for more information regarding repayment and consolidation options.
8. Kat Tretina, *3 Times You Need a Loan Payoff Letter for Your Student Loans*, Student Loan Hero, updated Apr. 25, 2017, available at <https://studentloanhero.com/featured/payoff-balance-statement-student-loans/> (last accessed May 3, 2019).
9. *Id.*
10. Kelsey Ramirez, *Americans say buying a home is most stressful event in modern life*, Housing Wire, Aug 6, 2018, available at <https://www.housingwire.com/articles/46384-americans-say-buying-a-home-is-most-stressful-event-in-modern-life> (last accessed May 3, 2019).

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