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# Nursing Education Debt and Mortgage Approval: The Great Unknown

How some lenders are qualifying nursing professionals for home loans despite student debt By Josh Mettle

**P**aradoxically, the very tools nursing students utilize to help obtain their associate's, bachelor's, or master's degrees may preclude them from

putting a roof over their family's head—at least for a while. Like all higher education, undergraduate and graduate nursing degrees are expensive: at least \$40,000

for a bachelor of science degree; \$60,000 for an online master of science nursing degree.

Student loans have become prolific over the last decade to the extent that U.S. students currently owe more than \$1.5 trillion in private and federal loan programs. Compare that with the total outstanding debt in the U.S. for auto loans at \$1.1 trillion and \$977 billion for credit cards. Since 2004, student loan indebtedness has soared 302 percent, roughly ten times the growth in U.S. GDP during the same period. Student loan indebtedness has expanded ten times as fast as the U.S. economy.

Exacerbating the burden, borrowers cannot default on federal student loans unlike mortgages, credit cards or car loans. That debt is

likely to saddle indebted borrowers for decades and can become a major hurdle in qualifying for a home loan.

### HOW STUDENT LOANS JEOPARDIZE MORTGAGE APPLICATIONS

Much of the rapid expansion in student loan indebtedness followed the 2008 to 2010 mortgage meltdown, as did record conservative mortgage credit and underwriting standards. This combination of highly leveraged borrowers and constricted mortgage availability has created a significant challenge for many in the nursing field to qualify for a home loan.

Relying on deferment, forbearance or income-driven repayment programs to cope with indebtedness helps borrowers stay current with minimum student loan payments. Unfortunately, those options become hindrances when attempting to qualify for home loans. Most conventional and government loans like FHA, VA, and USDA, will not recognize any form of deferral or forbearance in student loans.

Mortgage credit guidelines require underwriters to qualify a home buyer at a fully amortized payment. Another option is default to a percentage of the outstanding student loan balance for estimating monthly payments. However, a fully amortized payment in these cases generally amounts to more than the borrower can handle, meaning the qualifying debt-to-income ratio has unacceptably exceeded underwriting limits. This reality makes it impossible for many borrowers to qualify for traditional mortgage financing.

For example, an applicant with a monthly income of \$7,000 would be limited to only \$3,000 or 43 percent credit indebtedness, which includes student loans, mortgage, and credit cards. As an example, consider a borrower with \$50,000 in student debt that is deferred or income driven. The payment will typically be in the 1–1.5 percent per month range, adding another \$500 to \$750 per month to the qualifying debt-to-income ratio. In many instances, adding the fully amortizing payment or percentage of outstanding balance payment to the overall debt-to-income ratio will disqualify the indebted borrower from qualifying for a mortgage loan—another unwanted consequence of student loans.

What can be done? Are there solutions

available for the highly educated and indebted nursing practitioner?

### A DIFFERENT APPROACH—SPECIALIZED MORTGAGES FOR PROFESSIONALS

There are alternatives. One that is growing in acceptance is a creative home loan program designed for professionals. This program was initiated several years ago for physicians and dentists—specialized loans that allowed doctors to either exclude student loan debts from consideration or qualify based on income-driven repayments. Some in the mortgage industry found default rates were so low when lending to doctors that they allowed them to qualify without counting their student loans into the debt-to-income ratio calculation.

The program has worked so well that similar underwriting guidelines are being applied to nursing professionals—good news that will surely help ease the financial burden associated with federal student loans. Why? Because mortgage lenders have determined that homeowners in these professional fields are excellent credit risks. As a result, lenders have begun to loosen underwriting guidelines specifically around student loans and self-employment history. Other professionals taking advantage of these programs include certified registered nurse anesthetists, physician assistants, pharmacists, certified public accountants and (this last one should come as no surprise) lawyers.

To understand why more liberal underwriting guidelines for nursing and other professionals have become an alternative, consider the unusually high numbers of medical professionals applying for Public Service Loan Forgiveness (PSLF). PSLF, created in 2007, “forgives the remaining balance on your federal Direct Loans after you make 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying public service employer,” as explained by the government’s Consumer Financial Protection Bureau. The term “public service employer” includes public hospitals and non-profit corporations.

All of those payments can be reduced in one of the qualifying income-based repayment programs. For nursing professionals in public service thinking of eventually qualifying for PSLF, the object is to pay as little as possible in each of those 120 qualifying pay-

ments. The loan balance and repayment term are often extended beyond what they would be if the borrower had a strategy of aggressive self-repayment.

There is an important caveat: don’t assume that PSLF is the answer. Government statistics reveal that only few have qualified to take advantage. In September 2018, the U.S. Department of Education reported that a meager 96 applications had been approved for PSLF, and that 99 percent of the applicants were rejected—a startling figure when considering that the applications totaled 33,300. It is not feasible to project what this troubling statistic means for the thousands of professionals hoping to qualify for PSLF, but it’s obvious at this point that student loan indebtedness is going to be a limiting factor for longer than many borrowers had anticipated.

### HOW TO FIND THE RIGHT HOME LOANS

At least nursing practitioners who have high levels of student indebtedness or complicated non-employee (W-2) income structures can rest a little easier knowing there is a new breed of home loans specifically designed for professionals. Qualifying is obviously not guaranteed, but lenders are recognizing the benefits of this approach to help ease the burden of federal student loans to help enable mortgage loan approval.

Seeking these specialized loan programs may not be easy. Some local banks or credit unions may not know about them or are wary of facilitating them. The best way to learn more about these programs is to search online for professional home loans for nurses, check with colleagues, examine professional online forums and consider contacting physician home loan banks that might extend their program to nurse practitioners. These programs can help ease the burden for those who dream of affordable home ownership despite their student loan debts. ■

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*Josh Mettle is an industry-leading author and mortgage lender, specializing in financing physicians, dentists, CRNA, and other nurse professionals with highly specialized professional loan programs. Based in Salt Lake City, Utah, Josh is area manager for Fairway Independent Mortgage Corporation. Email: josh.mettle@fairwaymc.com.*