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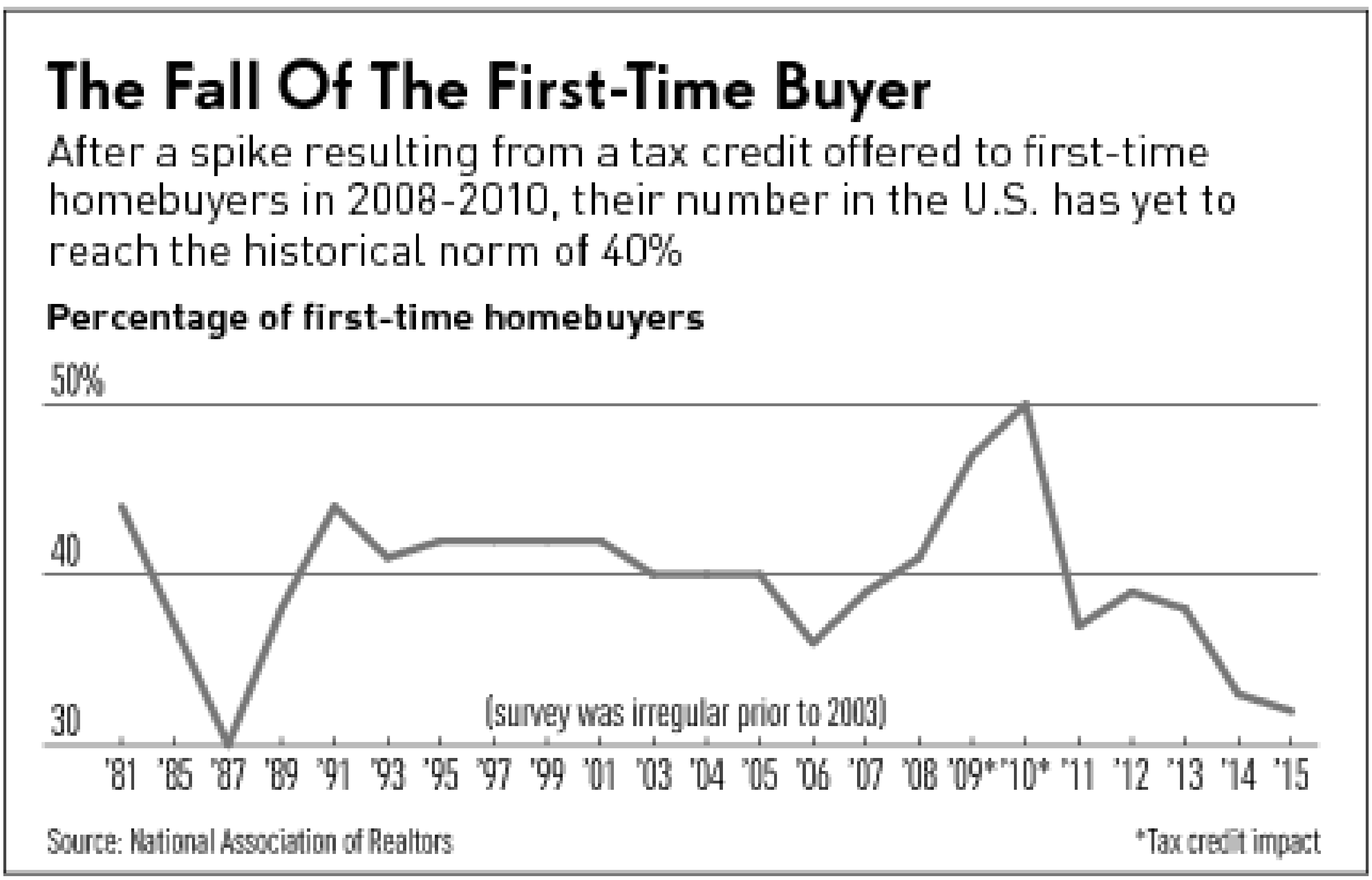

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As the share of first-time homebuyers continues to plummet, one of the obstacles many consumers face as they consider moving off the sidelines into the market is mounting student loan debt.

Student loan debt has swelled over the past few years as consumers have prioritized paying off other forms of debt, like credit card balances.

Wage growth has been weak, which has made it tougher to pay down student loans, while home prices have been rising.

The psychological effect of having a large debt burden also comes into play when considering buying a home and may well cause a delay in the purchase.

The Fed's key interest rate increase on Wednesday could also have an impact on a homebuyer's ability to qualify for a mortgage.

Overall, the share of first-time homebuyers declined to 32% in the 12 months ending in June from 33%, the lowest share since 1987, according to a survey released last month by the National Association of Realtors. Historically, the long-term average shows that nearly 40% of primary purchases are from first-time homebuyers.

Twenty-five percent of first-time buyers said saving for a down payment was the "most difficult task" in buying a home. Of those, 58% said student loans delayed saving for a home or a down payment.

“Our most recent data on first-time homebuyers is the lowest in nearly 30 years,” Lawrence Yun, NAR chief economist, told IBD. “Why is that? Student loan debt has doubled in the past five years in the aggregate.”

The survey found that the median student loan debt for all buyers is $25,000.

Yun says that the first-time homebuyers surveyed indicated that student loan debt held them back in the timing of their purchase by three years. If there had been no student debt, he adds, they likely would have purchased the home three years earlier.

Overall, the decline in first-time homebuyers has been more dramatic among people under 35, Yun adds.

“Another testament that the younger millennials are hamstrung because of the student debt loans they are carrying is, anecdotally, we are hearing younger people with large student debt want to pay it off before taking on another large debt like a mortgage,” he said. “So there is a psychological impact as well. Clearly student loan debt is a significant reason holding back the younger millennials, who would be first-time buyers.”

A second factor holding them back is tight underwriting standards, which generally hurt younger people, he says. And because there’s a shortage of new homes under construction, it’s pushed up home prices, making it more difficult to convert to homeownership, especially for renters who have no home equity, Yun says.

“Student loan debt has some sort of downward pressure on homeownership rates for young renter households age 20-39, a prime homebuying group,” Irene Lew, research assistant at the Joint Center for Housing Studies at Harvard University, told IBD.

Lew says that on a macro level, outstanding student loan balances have increased substantially. Between 2004 and 2014, she says, aggregate outstanding student loan debt has more than tripled in real value. “This has happened as households have gotten rid of other kinds of consumer debt, such as credit card debt, while student loan debt has risen steadily.

“Student loans (are) the biggest source of nonhousing related consumer loan debt held by Americans.”

In a November research paper, Lew noted that following the Great Recession, the share of young renter households, age 20 to 39, with high student loan burdens — or those allocating more than 14% of their monthly income toward student loan payments — nearly quadrupled from 5% in 2007 to 19% in 2013.

“Payment burdens are going up because median incomes have been going down in this age group in the wake of the recession, even as monthly payments have increased,” Lew told IBD.

A “contributing factor” to low homeownership rates among young renter households, she adds, is “they’re more highly burdened” by student loan payments.

“Student loan debt may also delay the accumulation of savings for a down payment on a home, as cash savings and assets are generally lower among young renters with student loans compared to those without them,” Lew noted in her paper.

Daren Blomquist, vice president at RealtyTrac, says student loan data are available only on a state level. In a 2014 survey on housing affordability for recent college grads, RealtyTrac examined the minimum amount of income needed to purchase a median-priced home, with and without student loans, in 494 counties.

It got an average of how much additional income the grads would need to buy a home, if they had student loan debt. In 475 counties, or 96% of the total, recent graduates making the median income and having the average student loan debt for the state could afford to buy a median-priced home, the survey found.

There were only seven counties where having student loan debt “would make or break if you could afford to buy a house,” Blomquist said.

“Student loan debt does have a significant impact on buying a home because you have to make one-third more in income to afford to buy the home with a student loan than without a student loan,” Blomquist said.

The survey found that the additional amount of money needed to buy a home — with a student loan vs. without one — was about $9,000 across the country, he says.

That means that if you have a student loan, you need to make about $9,000 more to afford the same home for people making the median income, he says.

“There’s a psychological component to this as well for many first-time homebuyers,” he adds. “Even if on paper they can afford to buy a home with student loan debt, they may not want to take on another couple hundred thousand dollars in debt if they’re still paying off a student loan.”

Blomquist says the student loan debt problem is getting worse because home prices continue to rise, making homes less affordable.

“The saving grace of this housing market is rock-bottom interest rates,” he said prior to the Fed raising its key interest rate by 25 basis points on Wednesday.

Yun says a 25-basis point increase has “very minimal impact” on student loan debt.

He says most student loans have fixed rates, and for borrowers with adjustable rates from private lenders, the amount they pay each month in interest will “perhaps slightly increase.”