

Smart Rate: Reducing Barriers for First-Time Homebuyers with Student Loan Debt

Connecticut Housing Finance Authority
Homeownership: Empowering New Buyers

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A Structural Barrier to Wealth-Building

For a generation of college-educated Americans, the dream of homeownership is increasingly out of reach – not due to lack of income, but because of student loan debt¹. In Connecticut, one in six adults carries student debt with the average balance exceeding \$37,000². More than half of these borrowers are under 35³ – the prime age for first-time homebuying. Yet mounting debt burdens, coupled with high home prices, lock many out of traditional mortgage financing. For Black and Hispanic borrowers, who are more likely to be saddled with student debt and less likely to receive familial financial assistance, this challenge is compounded by generations of systemic inequity.

CHFA saw this challenge – and opportunity – clearly. Our goal: design a program that removes one of the largest structural barriers to homeownership while promoting equity and building economic resilience. The result is Smart Rate, a first-of-its-kind interest rate reduction pilot designed specifically to help first-time homebuyers burdened by student debt qualify for and sustain homeownership.

A Targeted, Data-Informed Solution

Launched in July 2024, Smart Rate offers eligible borrowers a 1.125% reduction in CHFA's standard first mortgage interest rate. For example, on a \$350,000 loan, this rate reduction would translate to an estimated savings of \$220 per month⁴, or an increase of \$38,000 in borrowing power. To qualify, borrowers must:

- Be a first-time homebuyer purchasing a primary residence in Connecticut;
- Carry a minimum of \$15,000 in unpaid student debt in good standing;
- Earn no more than 100% of Area Median Income; and
- Meet standard CHFA mortgage eligibility criteria.

Unlike models in Illinois and Maryland, CHFA's approach doesn't require paying off student debt at closing, an insurmountable hurdle for many. Instead, Smart Rate works within statutory limitations by deploying capital to buy down interest rates, thereby lowering DTI ratios and opening the door to financing for hundreds of borrowers previously shut out.

¹ A \$1,000 increase in student loan debt lowers homeownership rate by about 1.8% for public 4-year college-goers during their mid-20s, equivalent to average delay of about 4 months in attaining homeownership.

Mezza, A. et al. (2020). Student Loans and Homeownership. *Journal of Labor Economics*, 38(1).

<https://doi.org/10.1086/704609>

² <https://www.newyorkfed.org/microeconomics/topics/student-debt>

³ Educationdata.org as of April 3, 2022: <https://educationdata.org/student-loan-debt-by-state#connecticut>

⁴ From 2019-2024, the average monthly student loan payment by CHFA borrowers was approximately \$240

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Many Smart Rate borrowers also paired the program with CHFA's down payment assistance programs, including the Down Payment Assistance Program and Time To Own, a once-in-a-generation initiative. These programs provide critical upfront financial support enabling borrowers – particularly those without generational wealth – to seize the opportunity for homeownership in what has been a historically competitive housing market.⁵ In particular, Time To Own offered a unique, forgivable loan to help cover down payment and closing costs, removing one of the most persistent financial barriers preventing renters from becoming homeowners.

A High-Impact Pilot with Measurable Results

In just five months (July–November 2024), the Smart Rate pilot received 383 reservations and led to 371 loan closings. The impact:

- 44% of participants would not have qualified for a mortgage without Smart Rate.
- 43% identified as first-generation homebuyers.
- Black borrower participation increased by 9 percentage points, representing a 42% jump compared to CHFA's general first-time homebuyer programs.
- The median borrower age was 32, two years younger than CHFA's average—suggesting Smart Rate is reaching aspiring homeowners earlier in their journey.

These outcomes underscore Smart Rate's unique position as both an affordability tool and a homeownership equity accelerator.

Lived Experience: One Borrower's Journey

Amy G., a Smart Rate borrower from Uncasville, described her homebuying journey as “the ideal decision but extremely financially daunting” – a sentiment shared by many in her generation. When she learned about the Smart Rate program and how it could reduce her interest rate, “the purchase of the home felt more achievable,” she said. Thanks to the program, Amy is now saving \$190 per month, money she’s putting toward paying down her student loans while building equity in her home. She also credited Smart Rate’s educational resources with helping her feel more confident throughout the process: “My dog and I are embarking on a new chapter,” she shared, “and now we have a cute little place to call our own.”

Outreach, Implementation, and Partnerships

⁵ Connecticut had 78% fewer active listings in February 2025 than in 2019, meaning that there was only 1 home for sale in 2025 for every 5 available in 2019. Connecticut had the largest listings deficit of any state followed by New Jersey (69%), Vermont (68%), and Rhode Island (67%). <https://www.chfa.org/the-intersect/an-unbalanced-housing-market/>

To roll out the program statewide, CHFA:

- Developed a dedicated Smart Rate webpage outlining benefits, eligibility, and application steps;
- Trained nearly 70 participating lenders to guide borrowers through the process;
- Produced borrower-facing infographics, partner webinars, and testimonial materials to promote the program through trusted community channels;
- Cross-promotional collaboration with fellow quasi-public agency Connecticut Higher Education Supplemental Loan Authority.

CHFA leveraged existing networks with lenders, realtors, and housing counselors to ensure the program reached the borrowers who needed it most, especially those unaware that student debt relief might be within reach through rate reduction.

Scalable, Sustainable, and Ready to Replicate

Smart Rate was funded with a \$10 million set-aside that ultimately supported approximately \$110 million in first mortgages. For every dollar CHFA invested, \$12 in mortgage lending was unlocked, demonstrating a highly efficient use of resources. With a median first mortgage of \$294,500, the average cost to CHFA per borrower was just \$24,542, yielding outsized returns in borrower affordability and access. By leveraging capital in a way that aligns with secondary market requirements and CHFA's statutory framework, the model is both sustainable and replicable for other HFAs – particularly those prohibited from direct debt forgiveness or grantmaking.

More importantly, it represents a paradigm shift: treating student debt not as a borrower shortcoming, but as a systemic burden that can be offset with smart, strategic tools.

CHFA will continue to monitor borrower performance and explore opportunities to integrate Smart Rate into its long-term suite of offerings—advancing racial equity, intergenerational wealth-building, and financial resilience.

Redefining What's Possible

Smart Rate proves that bold doesn't have to mean expensive. With strategic use of rate buydowns, CHFA has empowered hundreds of first-time buyers – many of whom may have otherwise remained renters for years to come. It's not just a mortgage tool; it's a catalyst for economic mobility and racial equity.

The program's success has already caught the attention of policymakers. At the time of this submission, the Connecticut General Assembly is considering legislation (SB 1363) to make Smart Rate a statutory offering, ensuring continued support for borrowers carrying student loan debt.

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Visual Aids to Include:

- Impact infographic
- Samples of marketing materials incl screenshot of program webpage
- Quote from a Smart Rate borrower
- PDF of SB 1363, “An Act Establishing a Pilot Program for Certain Mortgage Borrowers with Student Loan Debt”

The Impact in Numbers

SmartRate 

Data Range: 7/1/24-11/30/2024

Loan Profile

371

Smart Rate Borrowers

Total number of Smart Rate loan closings.



44%

Increased Opportunity

of borrowers would not have qualified for a mortgage without Smart Rate.



\$209

Monthly Savings

Median monthly savings from Smart Rate.



Borrower Impact

First-Generation Homebuyers

Of those who responded, the following identified as first-generation homebuyers.

43%

Increased Black Homeownership

Smart Rate saw an increase in the share of Black CHFA borrowers.

9%

Median Borrower Age

Two years younger than CHFA's 2024 average, indicating earlier homeownership.

32

Smart Rate Pilot Interest Rate Reduction Program

A significant obstacle to homeownership is a potential homebuyer's inability to qualify for the purchase of a home due to student loan debt. For a limited time, the SMART RATE program will help households overcome the obstacle of student loan debt to afford their first home.



Benefits

- 1.125% reduction of the CHFA first mortgage interest rate.
- Will help offset the borrowers' student loan debt monthly payment.
- Down payment & closing cost assistance available through either [Time To Own](#) or the [Down Payment Assistance](#) program.



Eligibility Requirements

- Borrower must use [CHFA First Mortgage](#) program.
- Borrower must have a cumulative unpaid student loan debt balance of at least \$15,000 at the time of CHFA final loan commitment.
- Borrower must be in good standing (current) on their student loan.
- Student loan may be in repayment status or deferred.
- Borrower income may not exceed 100% of the [Fannie Mae/Freddie Mac AMI \(Area Median Income\) limits](#) in effect.



Additional Considerations

- Applicants must meet all CHFA first mortgage eligibility and underwriting criteria, to include income and sales price limits. The CHFA Participating Lender will work with applicants to determine complete program eligibility requirements.
- Learn more about taking the first steps to becoming a homeowner [here](#).

How to Apply

CHFA has nearly 70 participating lenders across the state, so contact [CHFA- Participating Lender](#) near you and apply!

Contact Info

999 West Street • Rocky Hill, CT 06067
(860) 721-9501
Email



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SmartRate

Borrower Testimonial

I was in a situation that purchasing a home was the ideal decision but extremely financially daunting. The program (Smart Rate) was introduced to me, which provided a reduction to my interest rate that made the purchase of the home feel more achievable! The resources provided helped me understand the process and feel more confident about the new chapter my dog and I are embarking on and now we have a cute little place to call our own!

Amy G.

Uncasville, CT



*Maddie
(Amy's pup!)*



For Immediate Release

Contact: Marcus Smith
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CHFA's New SMART RATE Program Aims to Help First-Time Homebuyers with Student Loan Debt

(ROCKY HILL, Conn) – July 18, 2024. Student loan debt is a formidable obstacle to achieving the dream of homeownership for many aspiring homebuyers. It is estimated that every \$1,000 in student loan debt delays the purchase of a home by four months for people in their 20s. To help overcome this barrier, the Connecticut Housing Finance Authority (CHFA) is introducing the SMART RATE Interest Rate Reduction program. The program will begin accepting applications on Monday, July 29, 2024.

Under SMART RATE, eligible borrowers may receive a 1.125% interest rate reduction on their CHFA first mortgage. The SMART RATE program's interest rate reduction will help offset a borrower's student loan debt. "This interest rate reduction translates into significant monthly savings, which can then be redirected towards paying off student loans," says Nandini Natarajan, CEO and Executive Director of CHFA. "This approach not only makes homeownership more accessible but also helps borrowers manage and reduce their student loan debt more effectively."

To be eligible for the new program, SMART RATE participants must have a cumulative unpaid student loan debt balance of at least \$15,000 at the time of CHFA loan approval and must be in good standing with their student loan servicer. The loan may be in deferment or in repayment. The borrower must be a first-time homebuyer purchasing their primary residence in the state of Connecticut and must meet all other criteria of CHFA's Mortgage Programs.

"Buying a home for the first time is a major life milestone and our administration has made it a priority to help first-time homebuyers with the financial resources they need to achieve this goal," Governor Ned Lamont said. "I urge anyone who is considering buying their first home and who has student loan debt to look into this new SMART RATE program to learn how it can reduce your mortgage interest rates and help offset the costs of buying a home."

By reducing the mortgage interest rate, the SMART RATE program can help to offset the student loan debt payment, enabling homebuyers to manage both expenses more affordably. SMART RATE saves the borrower money over the long term while allowing them to build equity in their home. And as Natarajan notes, "SMART RATE has the potential to help alleviate historically inequitable access to homeownership opportunities by reducing barriers presented by student loan debt, particularly for borrowers of color and first-generation homebuyers."

"The SMART RATE program will provide much-needed relief for those with student loan debt, enabling them to invest in their future and contribute to the vitality of our communities," said Seila Mosquera-

Bruno, Connecticut's Commissioner of Housing and CHFA's Board Chair. "This initiative reflects our commitment to supporting residents in their journey towards economic independence and long-term success."

Borrowers may also take advantage of CHFA's Down Payment Assistance Program (DAP) loan or the Time to Own (TTO) forgivable loan program, both of which offer down payment assistance and/or closing cost assistance. For more information on the program and to find a list of Participating Lenders, visit www.chfa.org/SmartRate.

About CHFA

Connecticut Housing Finance Authority is a self-funded, quasi-public organization dedicated to alleviating housing shortages for low- and moderate-income families and individuals in the state. Through employer-assisted housing efforts, CHFA promotes economic development, ensuring a brighter future for all. For more information on CHFA, visit www.chfa.org.





General Assembly

Raised Bill No. 1363

January Session, 2025

LCO No. 4878



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Referred to Committee on HOUSING

Introduced by:
(HSG)

AN ACT ESTABLISHING A PILOT PROGRAM FOR CERTAIN MORTGAGE BORROWERS WITH STUDENT LOAN DEBT.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

- 1 Section 1. (NEW) (*Effective July 1, 2025*) (a) The Connecticut Housing
- 2 Finance Authority shall, as part of the homeownership loan program
- 3 established pursuant to section 8-286 of the general statutes, and within
- 4 the resources allocated by the State Bond Commission to the
- 5 Department of Housing for the purposes of said program, develop and
- 6 administer a pilot program for certain mortgage borrowers with unpaid
- 7 student loan debt. Such program shall authorize the authority to
- 8 provide a rate reduction to eligible mortgage holders in the amount of
- 9 1.125 per cent.

- 10 (b) The Connecticut Housing Finance Authority shall establish
- 11 guidelines for the program established pursuant to subsection (a) of this
- 12 section in the written procedures adopted under section 1-21 of the
- 13 general statutes. Such guidelines shall include the eligibility
- 14 requirements for program participants and other guidelines as deemed
- 15 necessary by the authority.

16 (c) To be eligible for the program, a borrower shall:

17 (1) Be a first-time homebuyer or have not owned a home in the past
18 three years unless purchasing in a targeted area, as defined in Section
19 143 of the Internal Revenue Code of 1986, or any subsequent
20 corresponding internal revenue code of the United States, as amended
21 from time to time, who does not own other real property;

22 (2) Meet the income guidelines as established by the authority's
23 income limits based on household size and have a gross income at or
24 below one hundred per cent of the area median income;

25 (3) Have a combined student loan debt with at least a fifteen thousand
26 dollar unpaid principal balance, provided such loan is in good standing
27 with no past due amounts and may be in repayment or deferment
28 status; and

29 (4) Meet other eligibility requirements as deemed necessary by the
30 authority.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2025	New section

Statement of Purpose:

To establish a program, administered by the Connecticut Housing Finance Authority, to permit certain eligible borrowers to receive a reduction of their mortgage interest rate.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]