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National Debt Lives Rent Free in Your Mortgage Payment

Note

A $40 trillion national debt pile sounds like an abstract number, until it starts to show up in Americans' mortgage bills.

Note

Investors are demanding a higher return to lend to the U.S. government. Several things are behind the recent rise in long-term bond yields, including sticky inflation and a less predictable Federal Reserve. But worries about America's finances also are a factor. Total public debt outstanding officially passed the $40 trillion mark last week.

Moves in the bond market influence the price of home loans, which track the 10-year Treasury yield. The rate on a 30-year mortgage has been above 6.6% for most of August.

Expensive mortgages are making it harder to get housing deals done. Existing-home sales fell 1.7% in July over the previous month. Tuesday's release of sales for new homes in July is expected to continue showing a sluggish market.

Note

That probably won't change anytime soon. The combination of high home values and costlier mortgages could keep America's housing market in a deep freeze for a fourth year in a row.

At today's rates, buyers with a 20% down payment need slightly more than $100,000 to qualify for a mortgage, and will spend 24.2% of their gross income to service the principal and interest on a medianpriced house, data from the National Association of Realtors shows.

Earlier this year, mortgage rates briefly dipped below 6% for the first time since 2022, easing the burden of buying a home. Turmoil in bond markets is unpicking the improvements in affordability.

An analysis by the Conference Board think tank shows why a family of four that is currently saving for a 20% down payment to buy a $600,000 home in five years' time has an interest in seeing public debt come down.

Note

The federal budget deficit is expected to reach $2.1 trillion in fiscal year 2026, or around 6% of gross domestic product, according to the Congressional Budget Office. If the government reduces the deficit to 3% of GDP over the next decade and financial markets reward this healthier fiscal outlook with lower interest rates, the family of four would pay $12,000 less over the lifetime of a 30-year mortgage. If the deficit rises to 9%, they face an extra $13,000 in costs.

Unaffordable housing doesn't only hurt buyers. U.S. housing construction fell sharply in July as rising mortgage rates are denting builder confidence. Builders like **Lennar** and **PulteGroup** were optimistic earlier this year that they might finally be able to reduce profitsapping incentives like mortgage-rate buydowns. With rates increasing again, builders will likely need to continue with these sweeteners. The physical shortage of housing gets a lot of blame in the debate about how to tackle America's affordability problem. The national debt pile deserves attention, too.

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Carol Ryan

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Total U.S. public debt outstanding passed this level last week

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