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Is Student Debt a Barrier to Homeownership?

FDIC 2014 Consumer Research Symposium
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with Zach Bleemer, Megan Hunter, Donghoon Lee, and Wilbert van der Klaauw

Data and collaborators

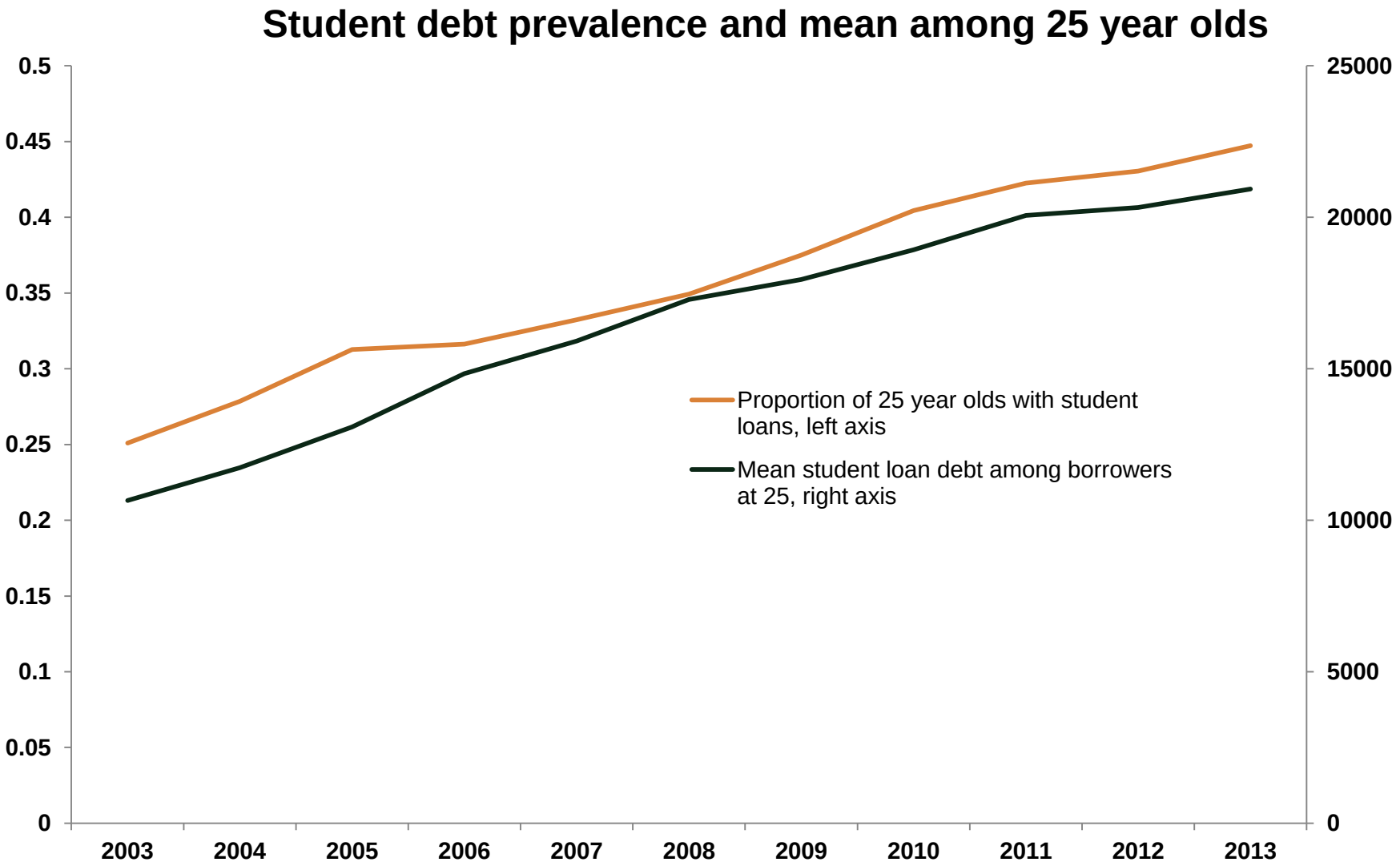
- Two papers: “Debt, Jobs, or Housing: What’s Keeping Millennials at Home?” and “Is Student Debt a Barrier to Homeownership?”

- Most of the findings discussed here are based on the FRBNY Consumer Credit Panel (CCP) – a large panel of consumer credit reports that the New York Fed has been developing with Equifax over the past several years.

- Collaborators in both the coresidence and the homeownership studies are Zach Bleemer, Donghoon Lee, and Wilbert van der Klaauw. Megan Hunter is a collaborator in the homeownership study.

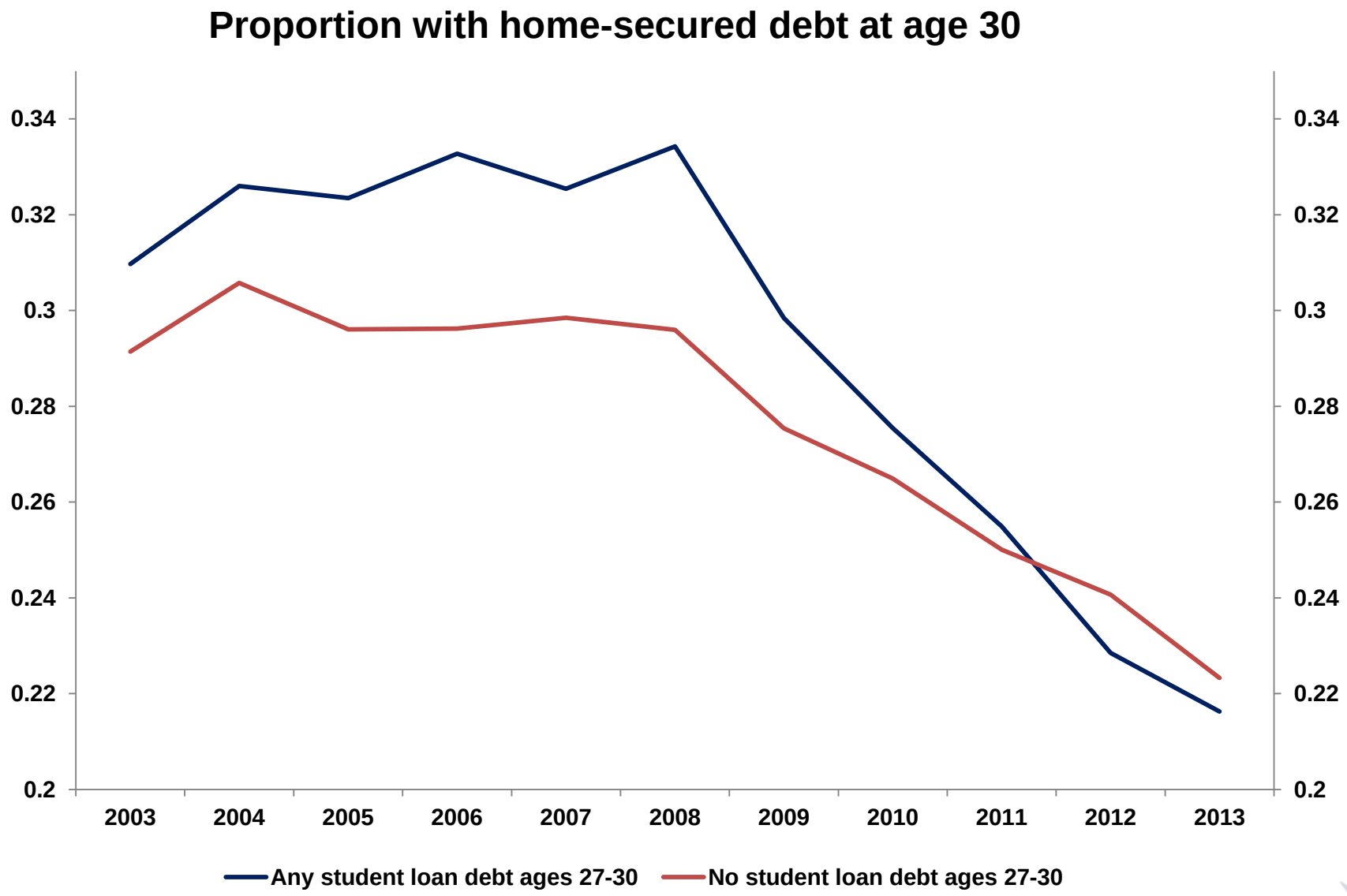
- These findings are HIGHLY PRELIMINARY. Please contact us before citing.

Student borrowing escalation



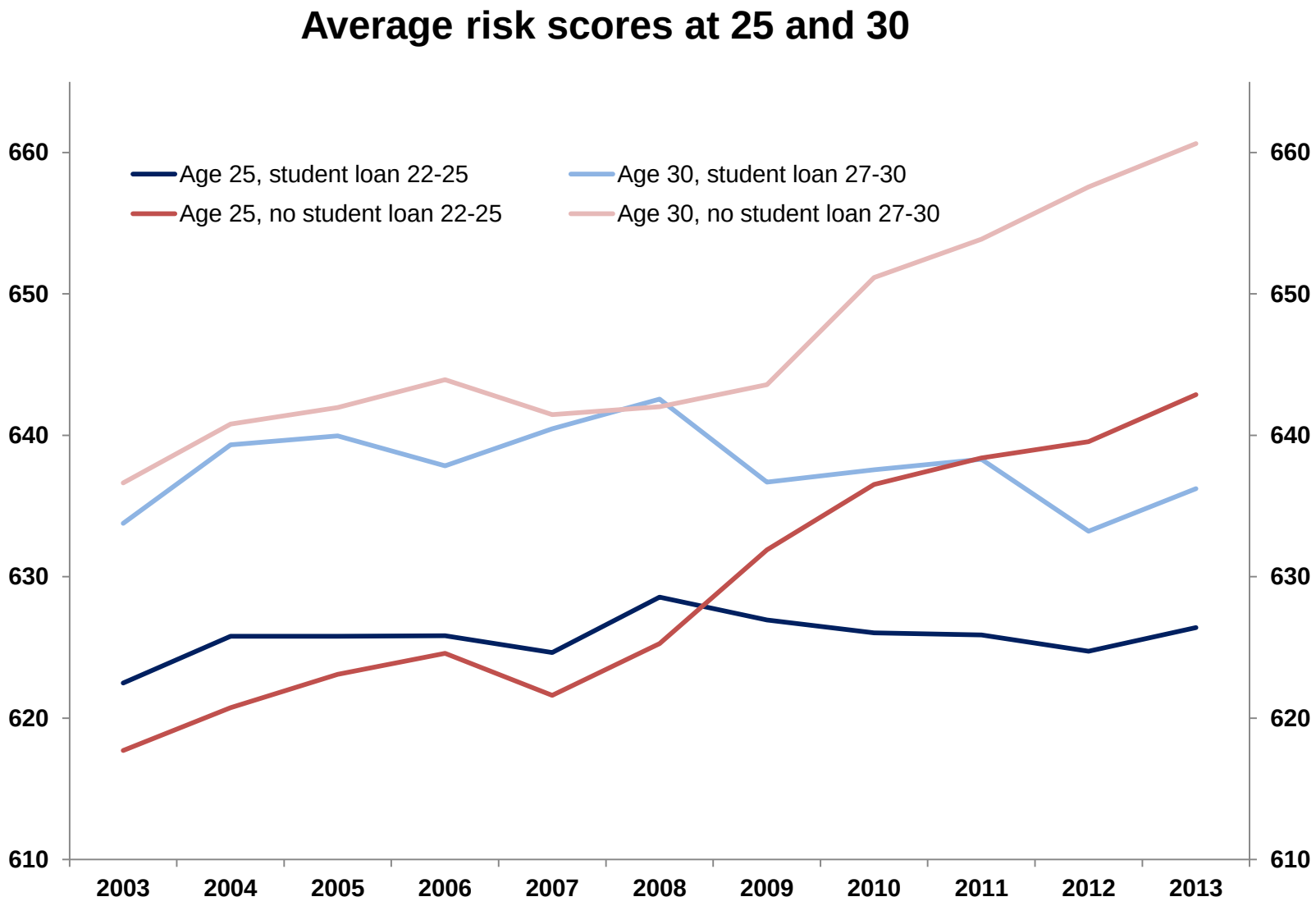
Source: New York Fed Consumer Credit Panel / Equifax

Homeownership at 30 in the CCP, by student debt



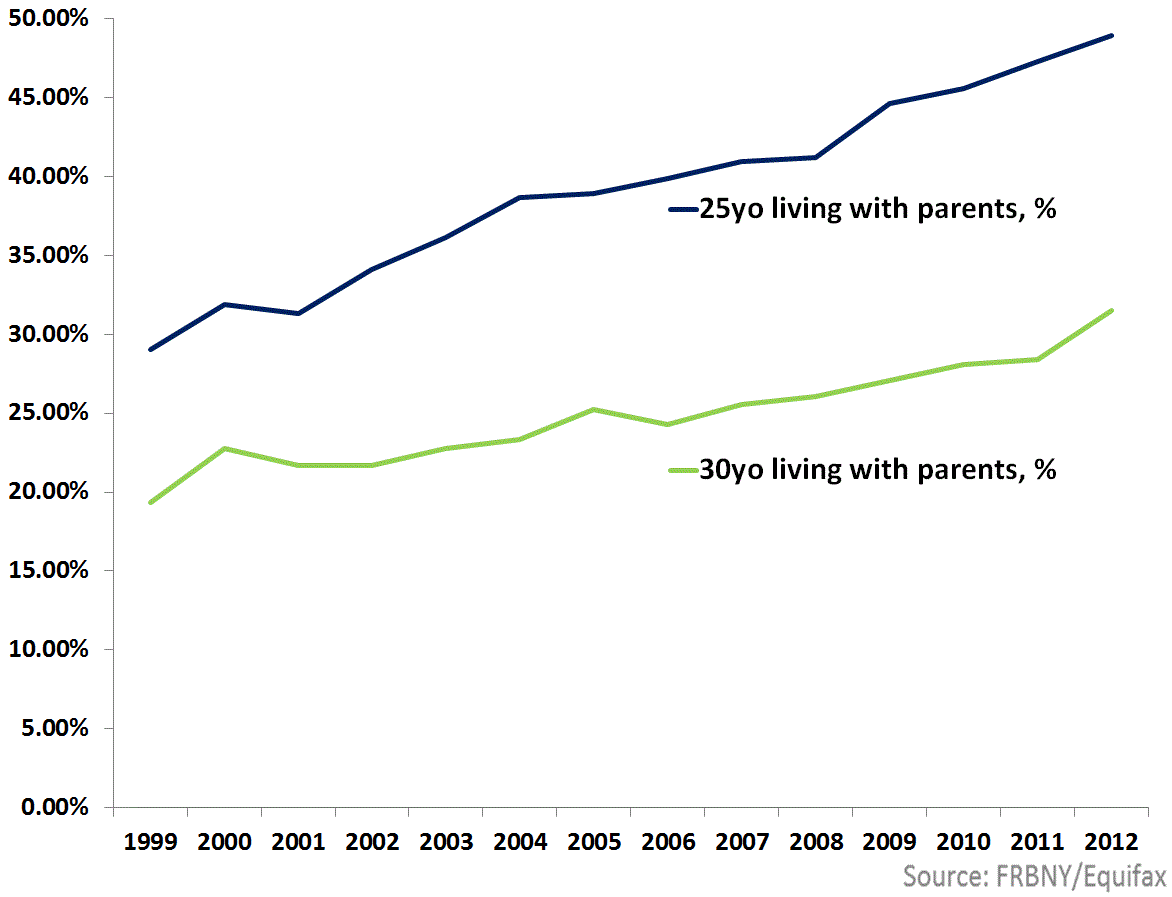
Source: New York Fed Consumer Credit Panel / Equifax

Declining relative credit scores of student borrowers



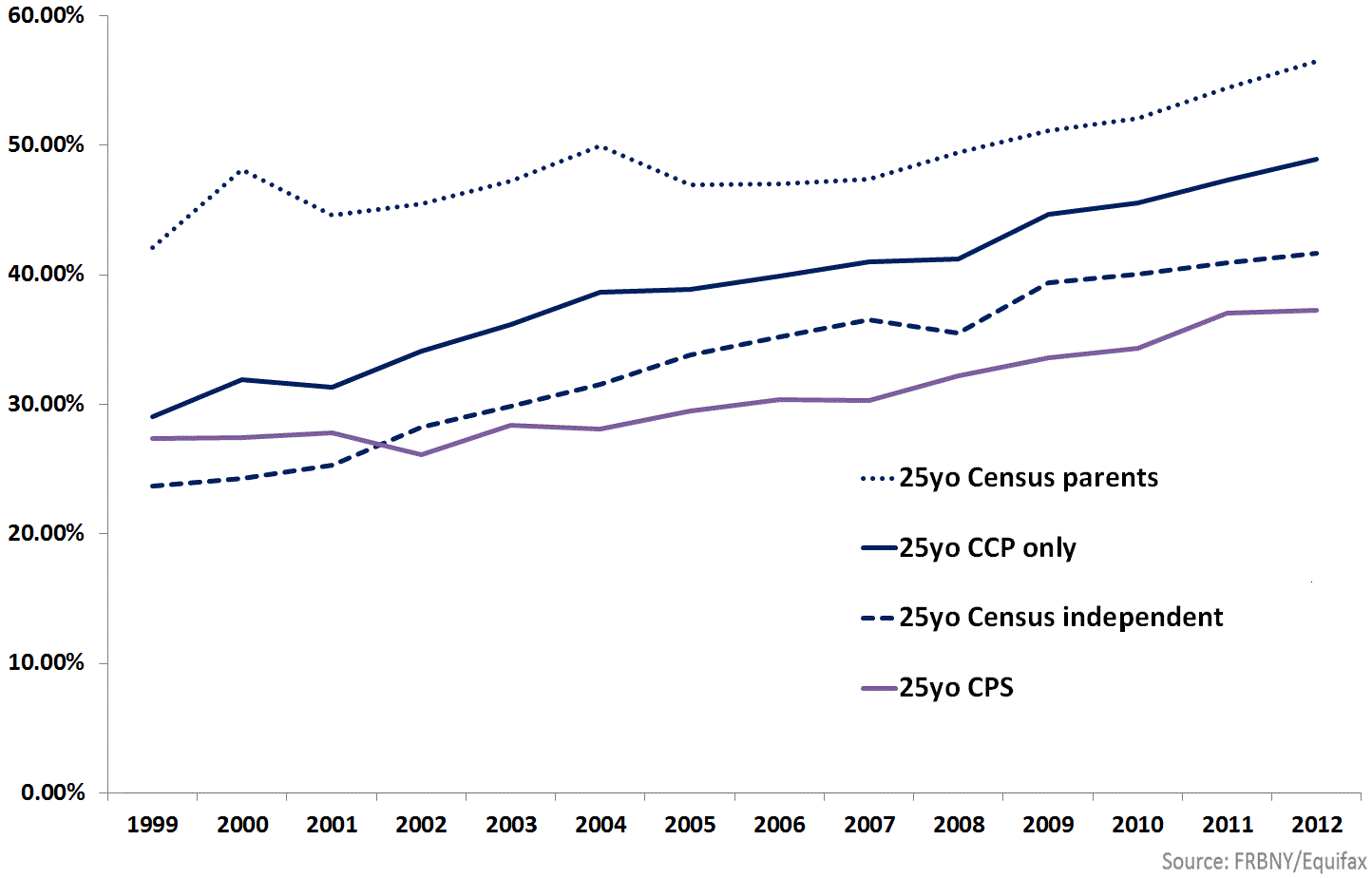
Source: New York Fed Consumer Credit Panel / Equifax

Living with parents in the CCP



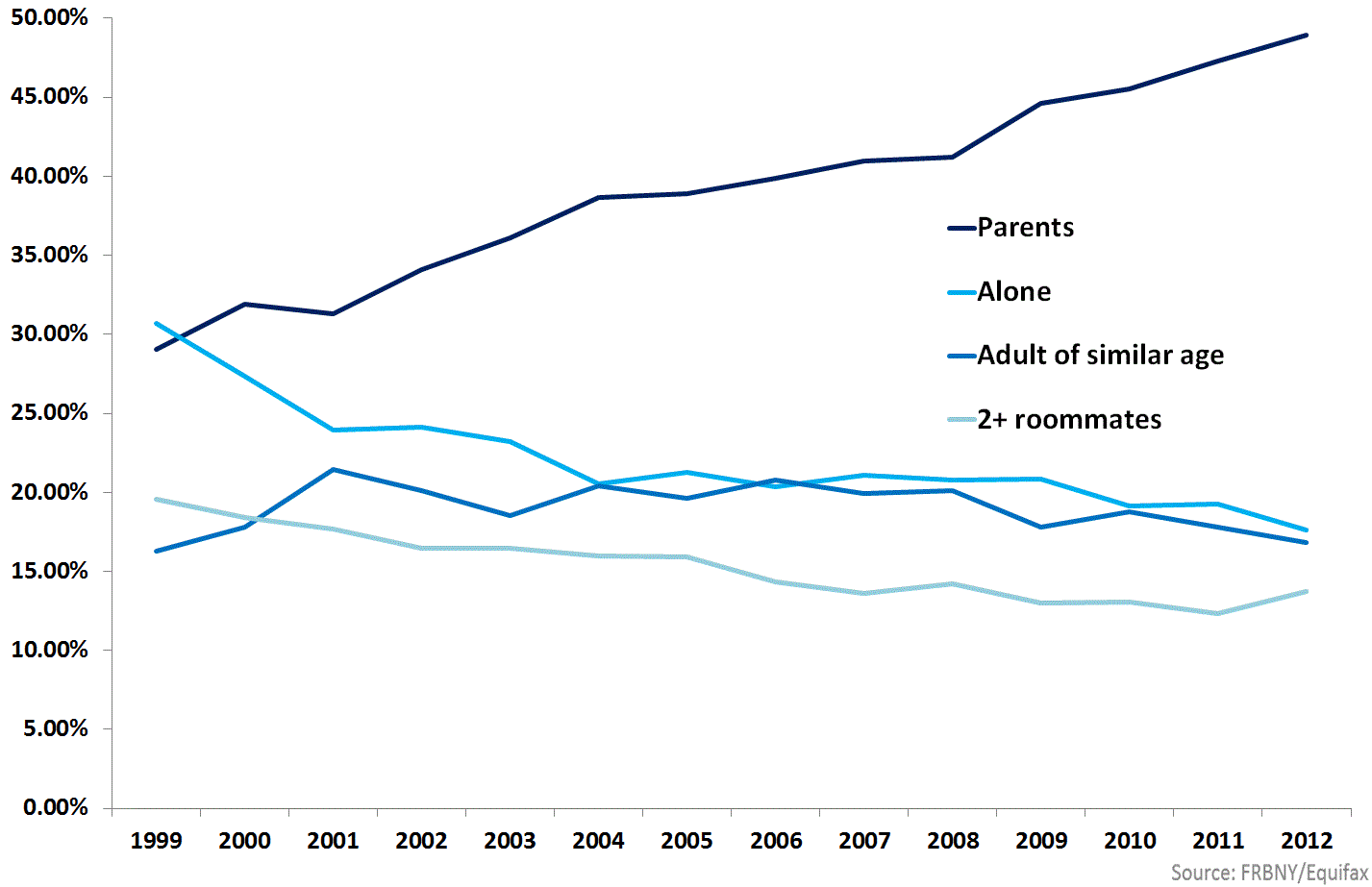
Source: New York Fed Consumer Credit Panel / Equifax

CCP and CPS living with parents



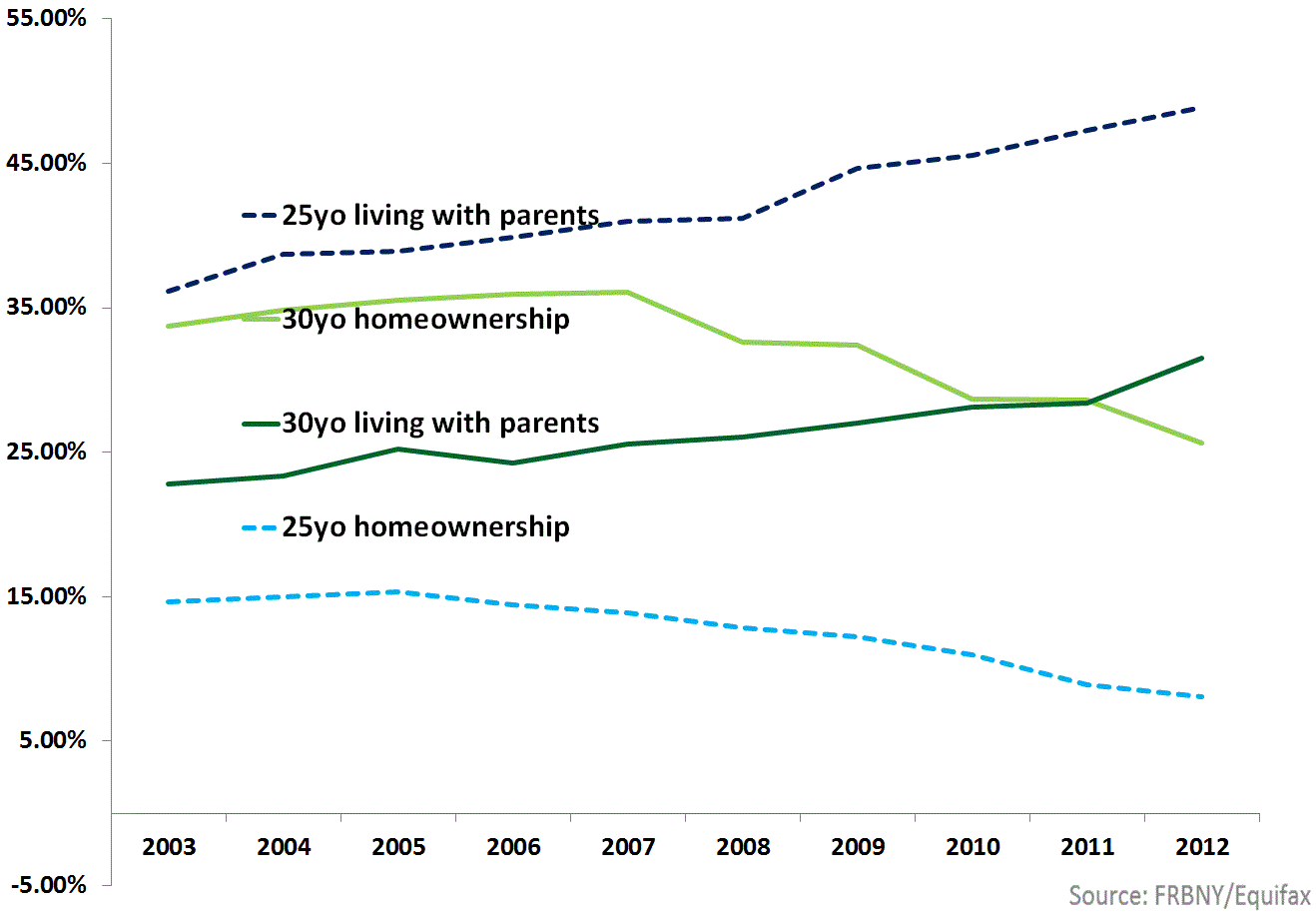
Source: New York Fed Consumer Credit Panel / Equifax, CPS

Residence arrangements of 25 year olds



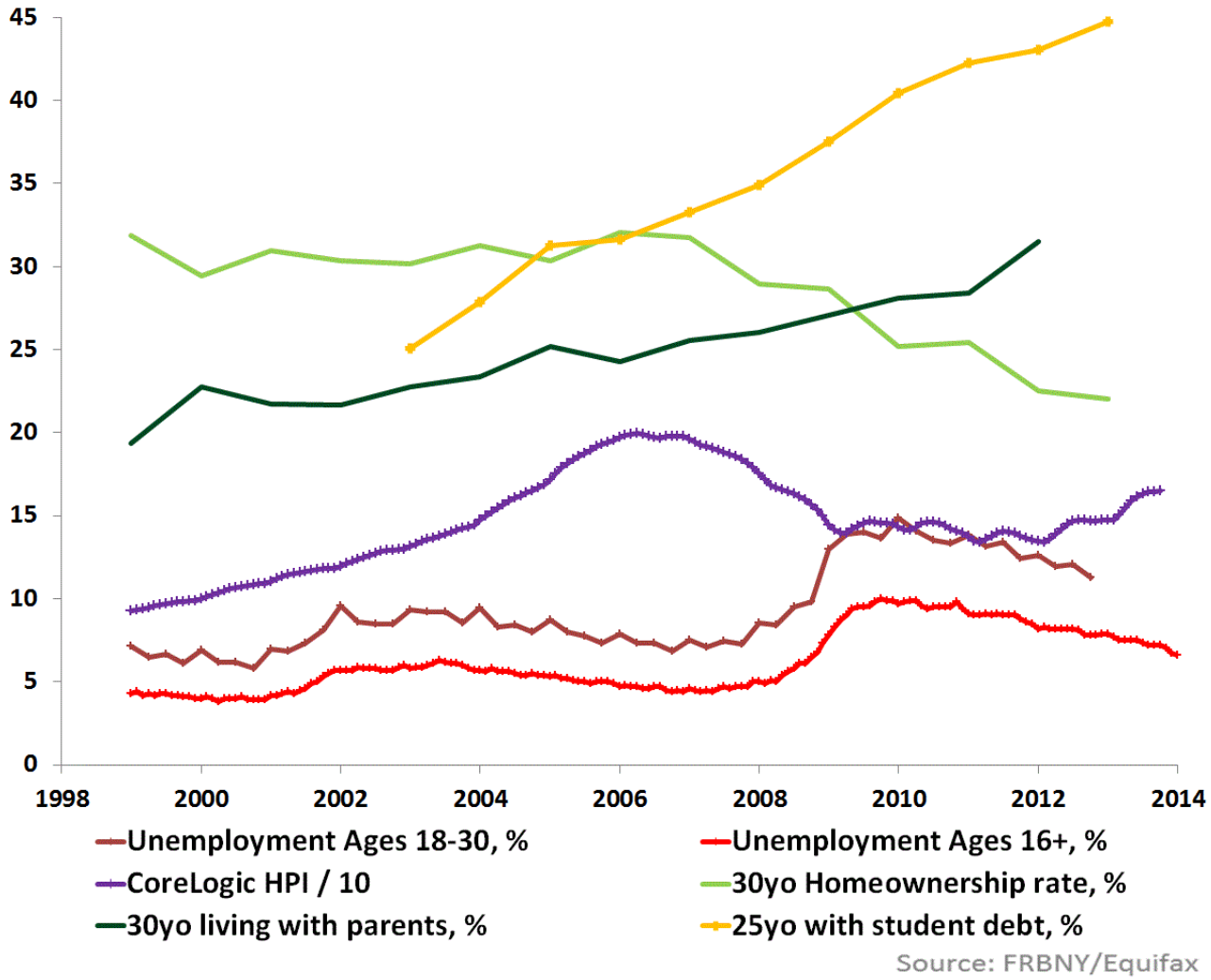
Source: New York Fed Consumer Credit Panel / Equifax

Homeownership and coresidence overlaid



Source: New York Fed Consumer Credit Panel / Equifax

Prevailing economic conditions



Source: New York Fed Consumer Credit Panel / Equifax, CoreLogic, CPS

CCP Transition models of the move home, the move out

- 2 year transition home for those living with parents
- 2 year transition out for those living away
  - Problem with the stock approach: kids at home live in nicer neighborhoods than kids on own, generates lots of spurious relationships.

- Regressors: 2 year changes in regional conditions - County unemployment, state youth unemployment, zip code house prices, county income

- …and state-by-cohort mean student debt per graduate, state-by-cohort graduation rate, state fixed effect.

CCP Transition models of the move home, the move out

- Local economic growth has countervailing effects on coresidence:
  - 1 ppt decrease in state youth unemployment increases the 2yr rate of moving out by 0.2 percentage points.
  - but a one SD zip code house price hike increases the 2yr probability of moving home by 0.7 percentage points.

- Student debt substantially impedes independent living
  - $10,000 increase in average debt leads to a 0.81 percentage point increase in the flow home to parents
  - and a 2.63 percentage point decrease in the flow from home to independence.

Prior Homeownership regressions

- Gicheva and Thompson (forthcoming) – A broad analysis of the influence of student debt on post-schooling economic stability using the SCF
  - A secondary result: negative but small and insignificant effect of student debt on homeownership.
  - Striking findings regarding access to credit and interest rates.

- Houle and Berger (2013) – NLSY97, social work perspective
  - $10,000 increase in student loans leads to a 6 percentage point decline in homeownership in a pooled sample of 2010 ~20-somethings.

- Our approach uses three representative, individual-level samples of youth, and an array of identification methods (with one somewhat related to Gicheva-Thompson).

CCP Homeownership regressions

- Outcome: Homeownership at ages 28-30; *N* = 1,219,861; pooling age 28-30 observations 1999-2013

- Control for variation in regional conditions: County unemployment, state youth unemployment, zip code house prices, county income, state-by-cohort mean student debt per graduate, state-by-cohort graduation rate, state fixed effect.

- $10,000 increase in average debt associated with a **2 percentage point** decrease in homeownership.

- Highly significant, direction and 2ppt size robust to time trend, varying the set of regressors, changing geographic refinement.

- Identification arises from within-state differences in the student debt of proximate cohorts, conditional on controls for local economy.

What's missing from the CCP analysis

- The credit report data are uniquely well suited to: comparing birth cohorts (or age groups) over time; business cycle; fine geographic variation; creditworthiness & repayment; dynamics of the full balance sheet.

- But we miss:
  - Demographics – fixed characteristics, socioeconomic background
  - Educational investment – what credential did the debt support?
  - Income
  - Student ability

National Longitudinal Survey of Youth, 1997 Cohort

- Is now 30-ish, hence perfect for analysis of post-schooling economic choices in the post-crisis era.

- Allows controls for:
  - (absurdly) rich socioeconomic background
  - ability (~IQ); high school GPA
  - rich education - degree, tuition, grants
  - adulthood jobs & family
  - time out of school, time in labor force

NLSY97 Homeownership regressions

- Control for all of the above and more
- Age 25 homeownership, observed 2005-2009
  - Raw (ever SL, owner) correlation: 0.0053
  - OLS: Student borrowers **4 percentage points** less likely to own, on a base of 16 percent, significant & quite robust
  - Alternative cumulative loan $s specification: $10,000 SL associated with a 2 ppt decrease in ownership
  - Confusion about loans associated with a 3 ppt decrease in ownership
  - (Student loans + degree) v. (no loans no degree) experiment: Student loans + degree associated with a 2 ppt decrease in ownership

NLSY79 Homeownership regressions

- Again, control for all of the above and more

- Age 25 Homeownership, observed 1983-1990
  - Student borrowers **5 percentage points** less likely to own, on a base of 17 percent

- Age 30 Homeownership, observed 1988-1995
  - Student borrowers **5 percentage points** less likely to own, on a base of 39 percent

Conclusions

- Young student borrowers appear to have (differentially) retreated from housing markets between 2008 and 2013, and to have suffered a loss of measured creditworthiness.

- From 1999-2013, youth gradually and persistently shifted out of solo and roommate living arrangements and into their parents' households.

- Improving youth labor markets enable moves away from parents; rising local house prices drive independent youth home; student debt increases have particularly large effects, both obstructing the path to independence and speeding the flow back home.

- Estimates from the CCP, the NLSY97, *and* the NLSY79, using very different methods, imply similar negative, substantial, and precise effects of student debt on homeownership. Effects of debt use, or of $10,000 of debt, range from a 2 to a 5 percentage point drop in homeownership.