

Effect of Credit Use on Household Structure

Discussion

Dora Gicheva

FDIC 4th Annual Consumer Research Symposium
October 17, 2014

Is Student Debt a Barrier to Homeownership?

Meta Brown

with Zach Bleemer, Megan Hunter, Donghoon Lee, and Wilbert van der Klaauw

Brief Summary

- Economic conditions affect the likelihood of transitioning into or out of parental co-residence
- Student debt makes co-residence more likely and owning a home less likely
 - Any student debt or unmanageable student debt? Lisa's paper suggests that it may be both
 - State-cohort default rates for student loans could measure the manageability of student debt
- Pronounced upward trends in both co-residence and student borrowing during 2003 – 2013 period. Could other factors be driving both?
 - Relationship between student debt and co-residence still observed in specifications with national linear time trend

State-Cohort Variation in Student Debt

- Controlling for a time trend and state averages, what generates cross-state differences over time? What are the policy implications?
- The annual amount of federal student loans is currently more than 60 times greater than state and institution-sponsored loans
 - State funding for education

FIGURE 16B

State Grant Aid per Full-Time Equivalent (FTE) Undergraduate Student, 2009-10

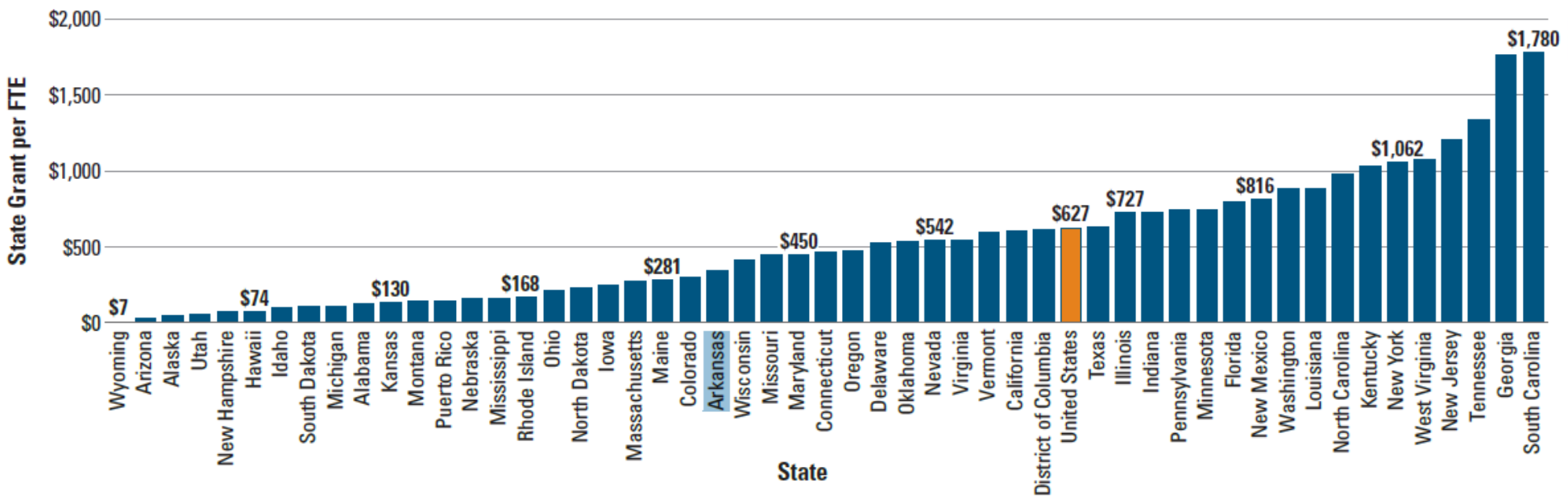
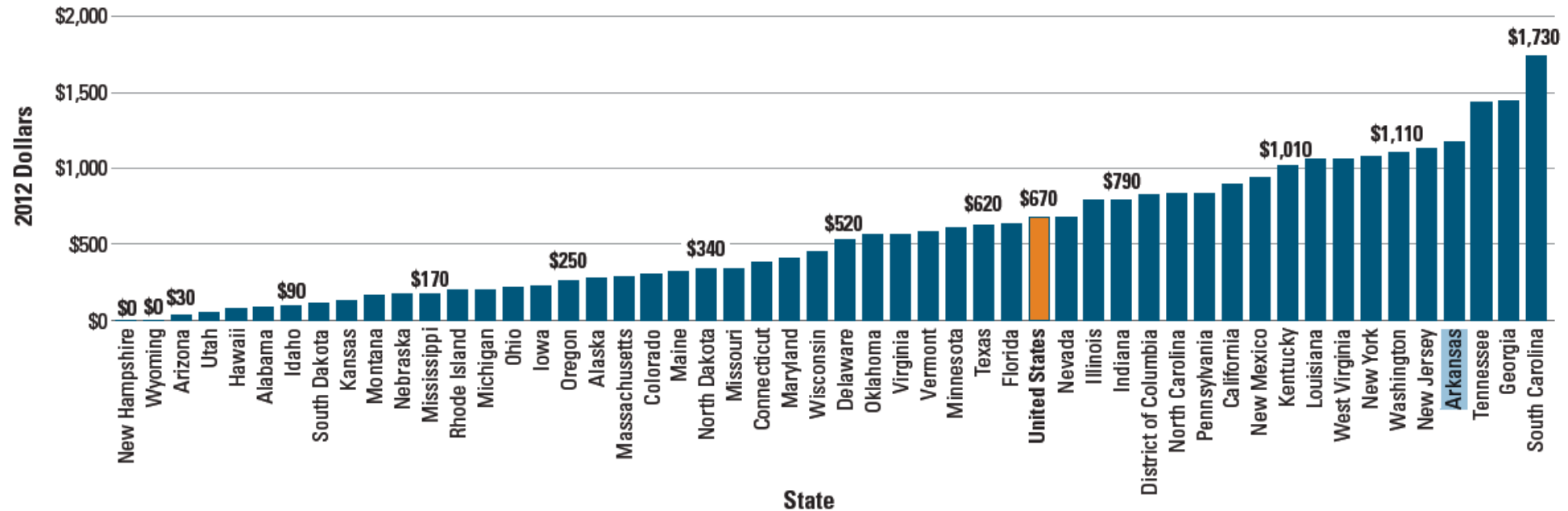


FIGURE 18A

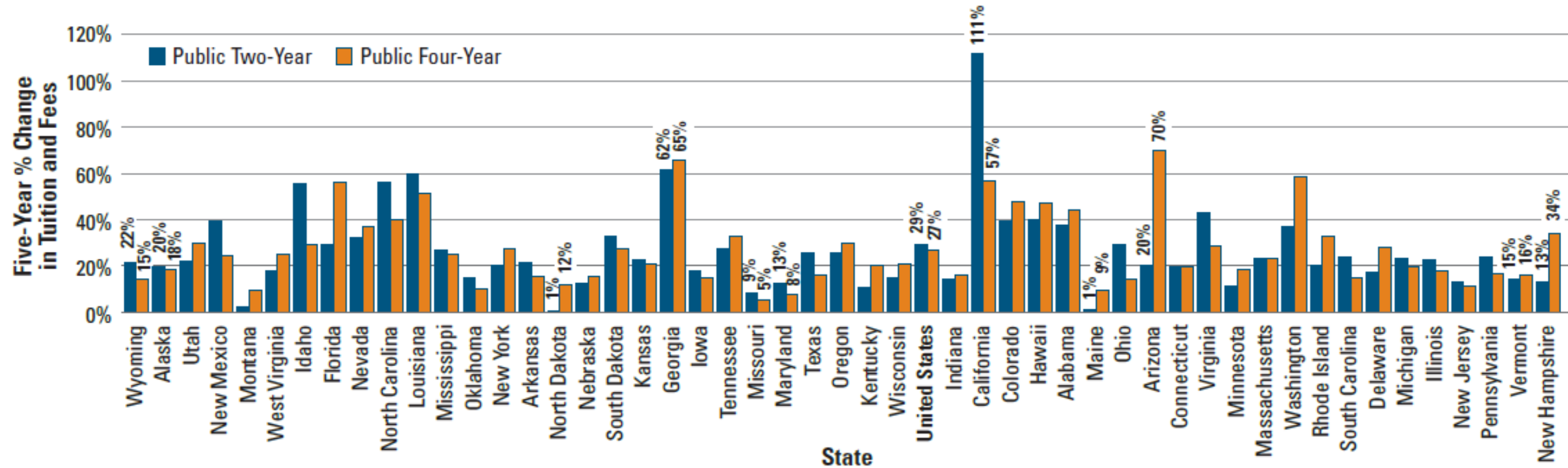
State Grant Aid per Full-Time Equivalent (FTE) Undergraduate Student in 2012 Dollars, 2011-12



State-Cohort Variation in Student Debt

- Controlling for a time trend and state averages, what generates cross-state differences over time? What are the policy implications?
 - State funding for education
 - Net prices

Five-Year Percentage Changes in Inflation-Adjusted Tuition and Fees, 2008-09 to 2013-14



SOURCE: The College Board, Annual Survey of Colleges.

State-Cohort Variation in Student Debt

- Controlling for a time trend and state averages, what generates cross-state differences over time? What are the policy implications?
 - State funding for education
 - Net prices
 - Household income (including house prices)
 - State-level economic conditions (for example unemployment rate)
 - Other?

State-Cohort Variation in Student Debt

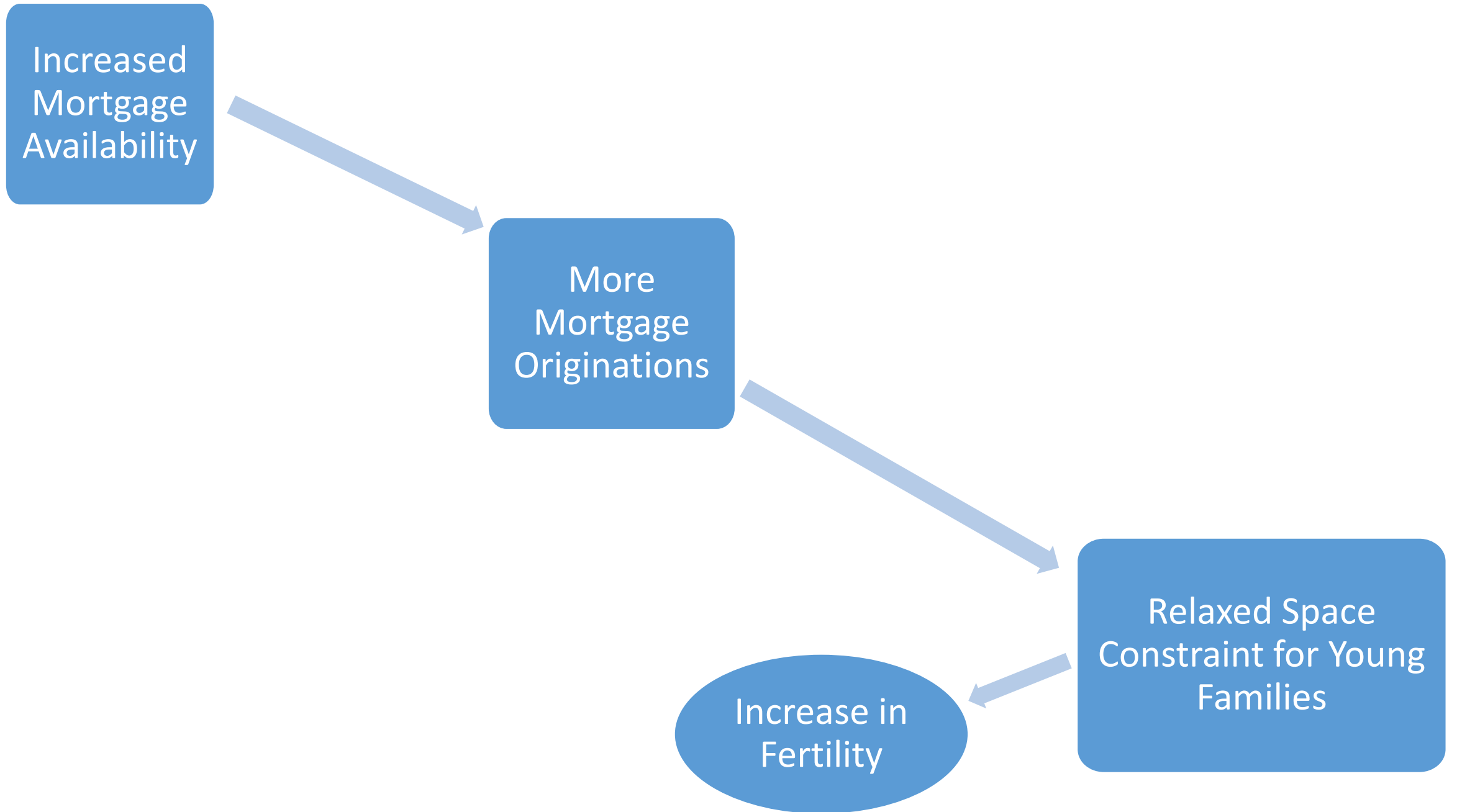
- If state funding is driving the variation, it is important to know that expenditures for postsecondary education have far-reaching impact (housing market in this instance)
- If household wealth or economic conditions are driving the identifying variation, what does this mean for effect of economic conditions on co-residence and homeownership?
 - Economic conditions have a secondary impact through student debt burdens

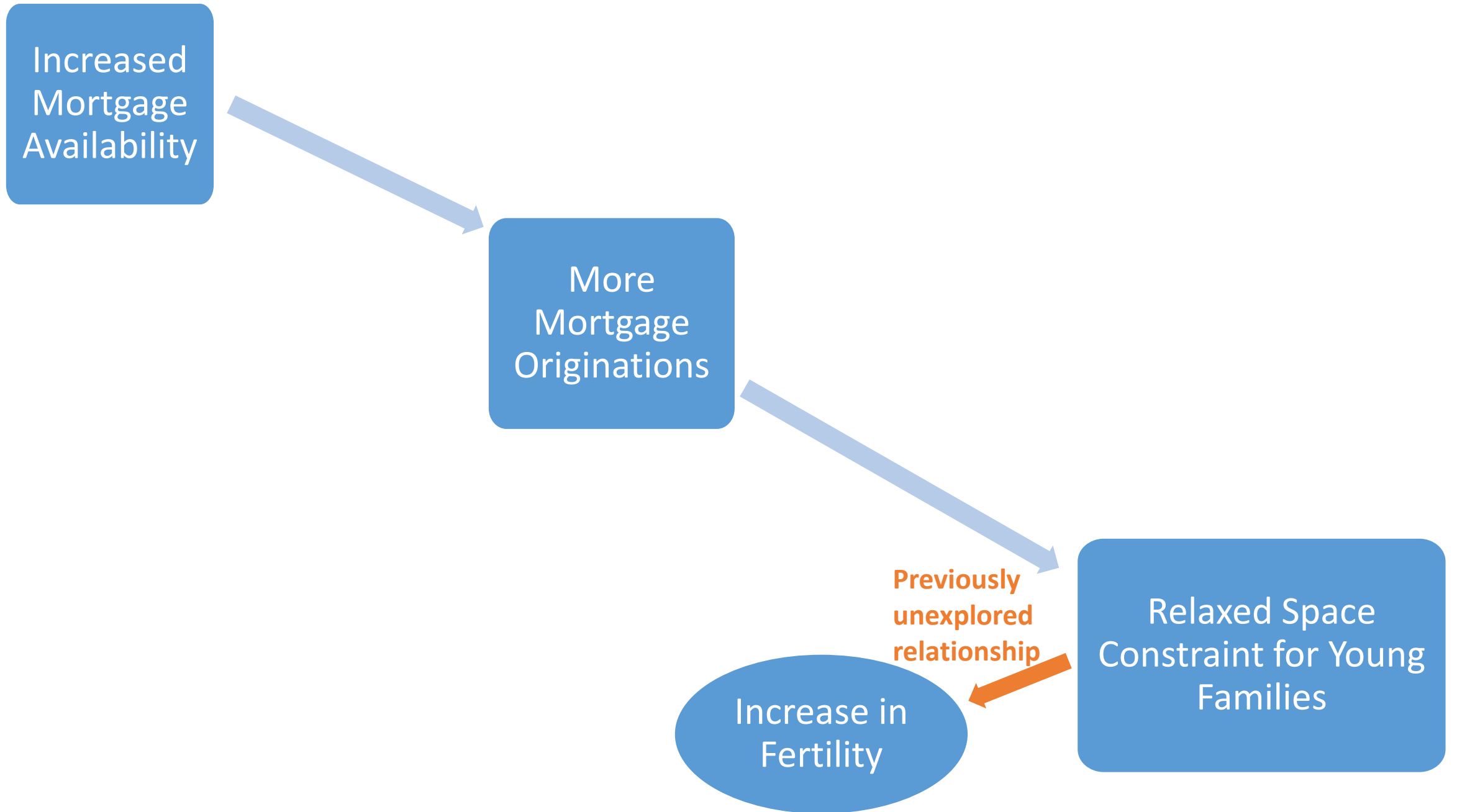
Home Ownership in NLSY97 and NLSY79

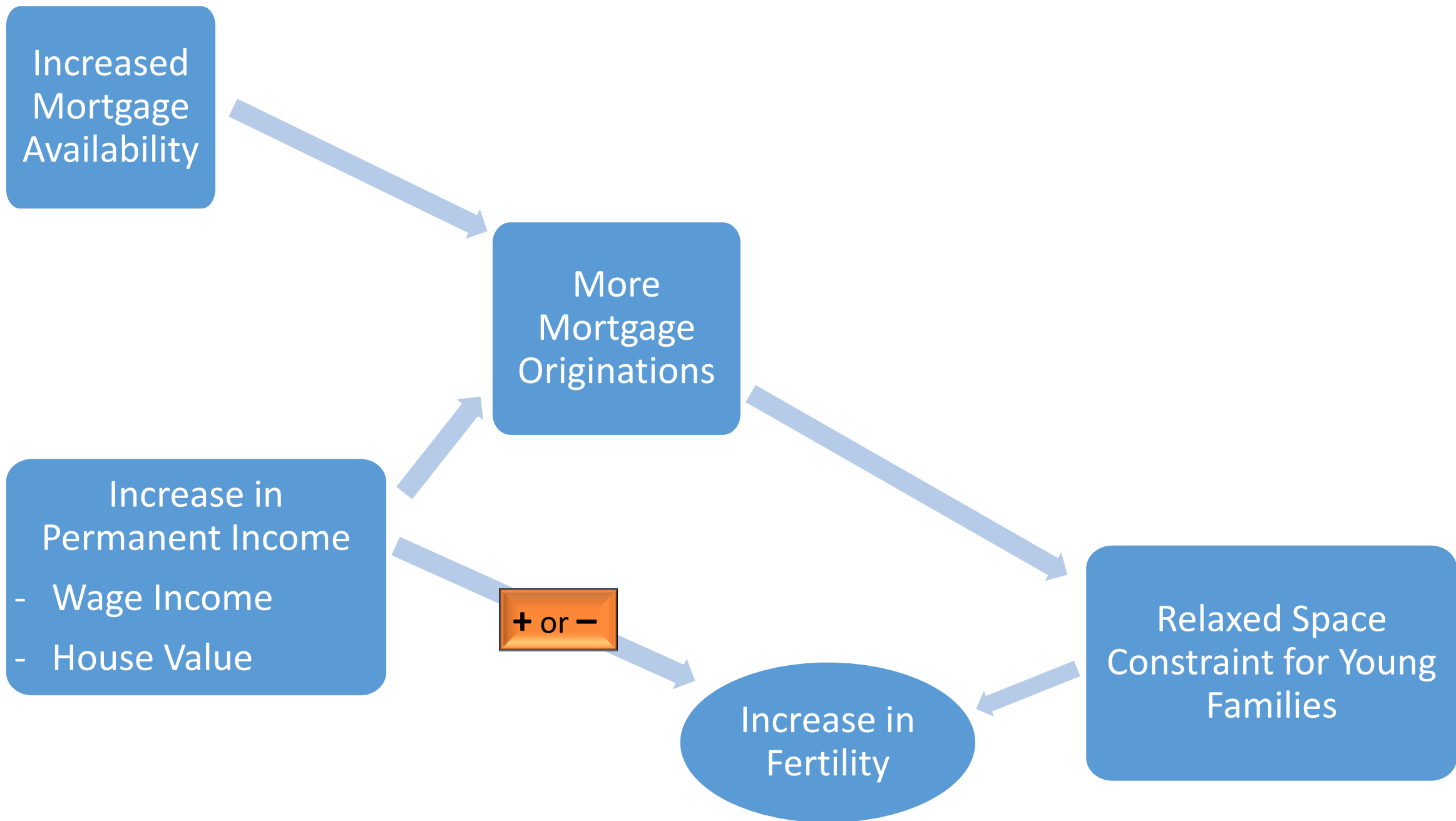
- Homeownership at age 25 decreases by 4-5 percentage points if individual has student loans.
- Interesting that the effect is so similar in 2005-2009 and 1983-1990, since student borrowing rates were very different
- The marginal borrower is different in 1978 and 2000. The marginal homeowner is probably different too
- May be a coincidence. Intriguing if it is not.

Finance and Welfare: The Effect of Access to Credit on Family Structure

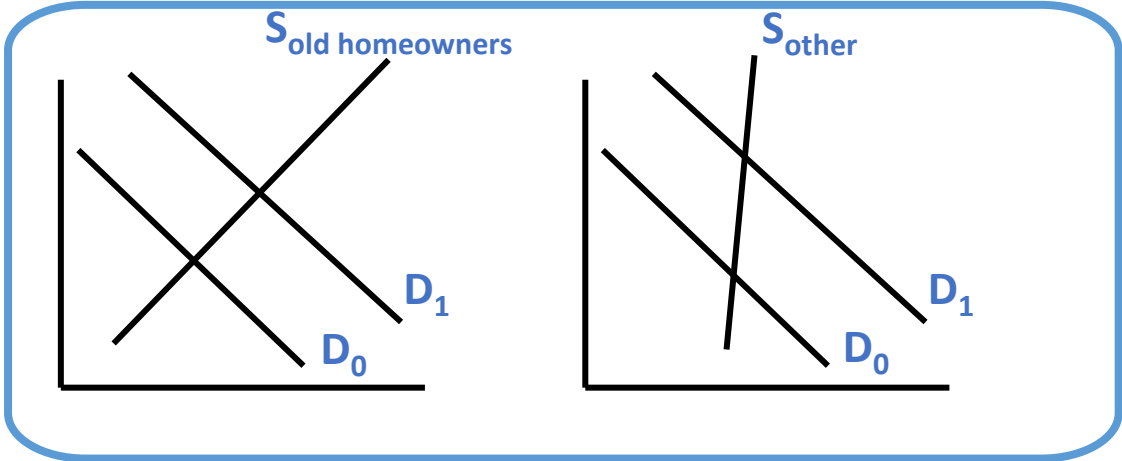
Isaac Hacamo





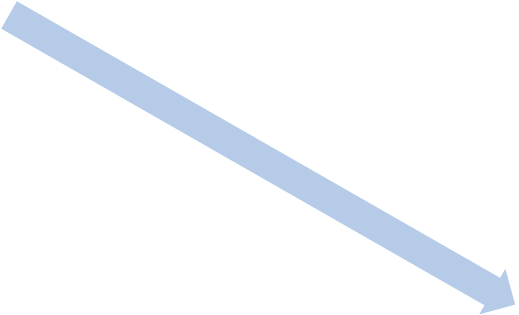


Increased
Mortgage
Availability



Use age distribution as
instrument

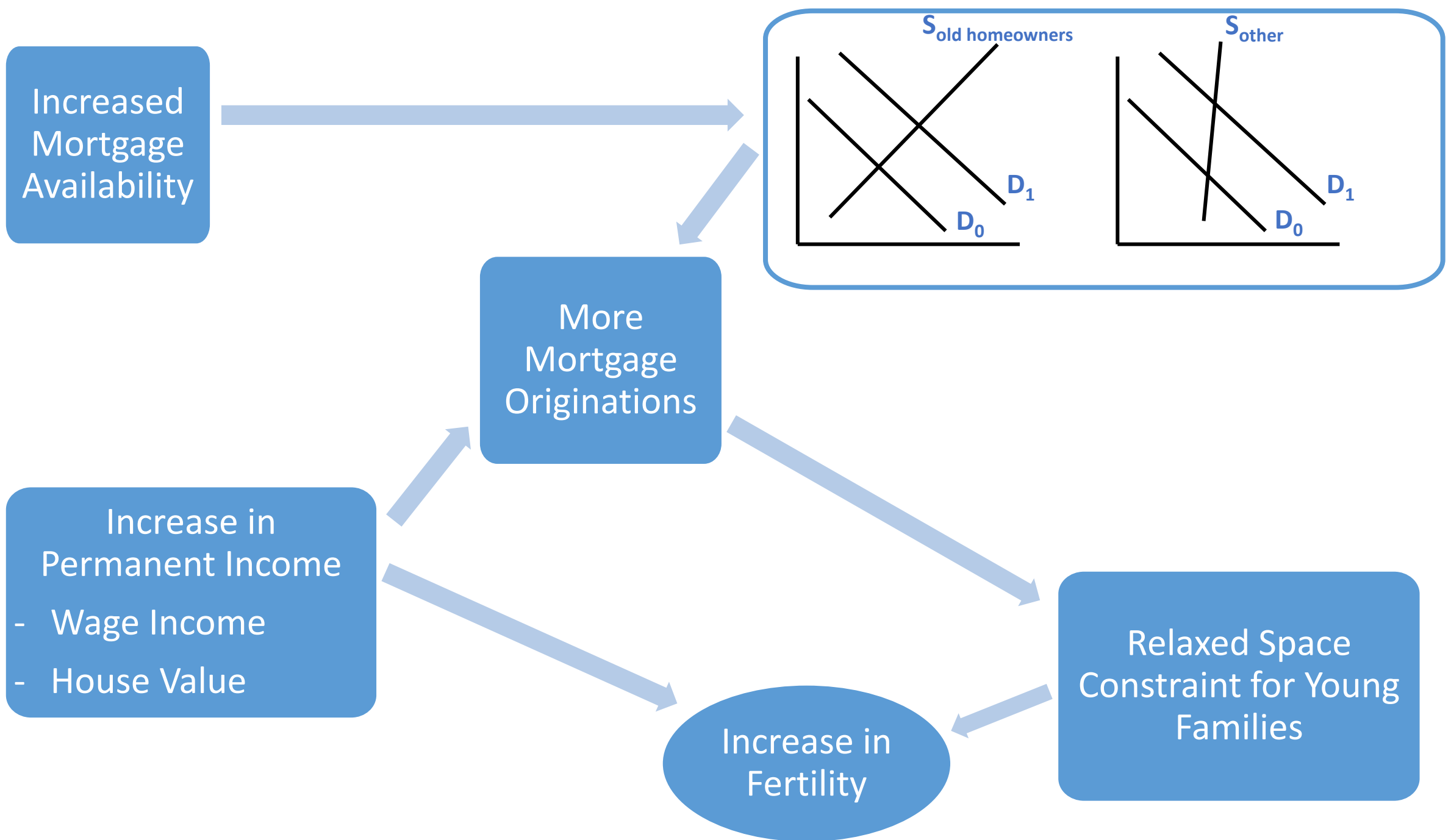
More
Mortgage
Originations



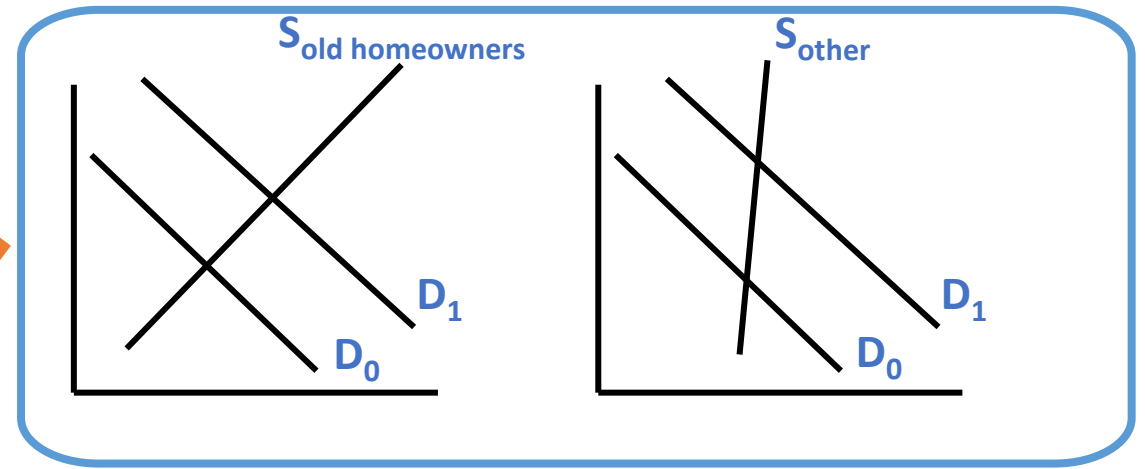
Relaxed Space
Constraint for Young
Families



Increase in
Fertility



Relationship not observed
in 1995-2000 period



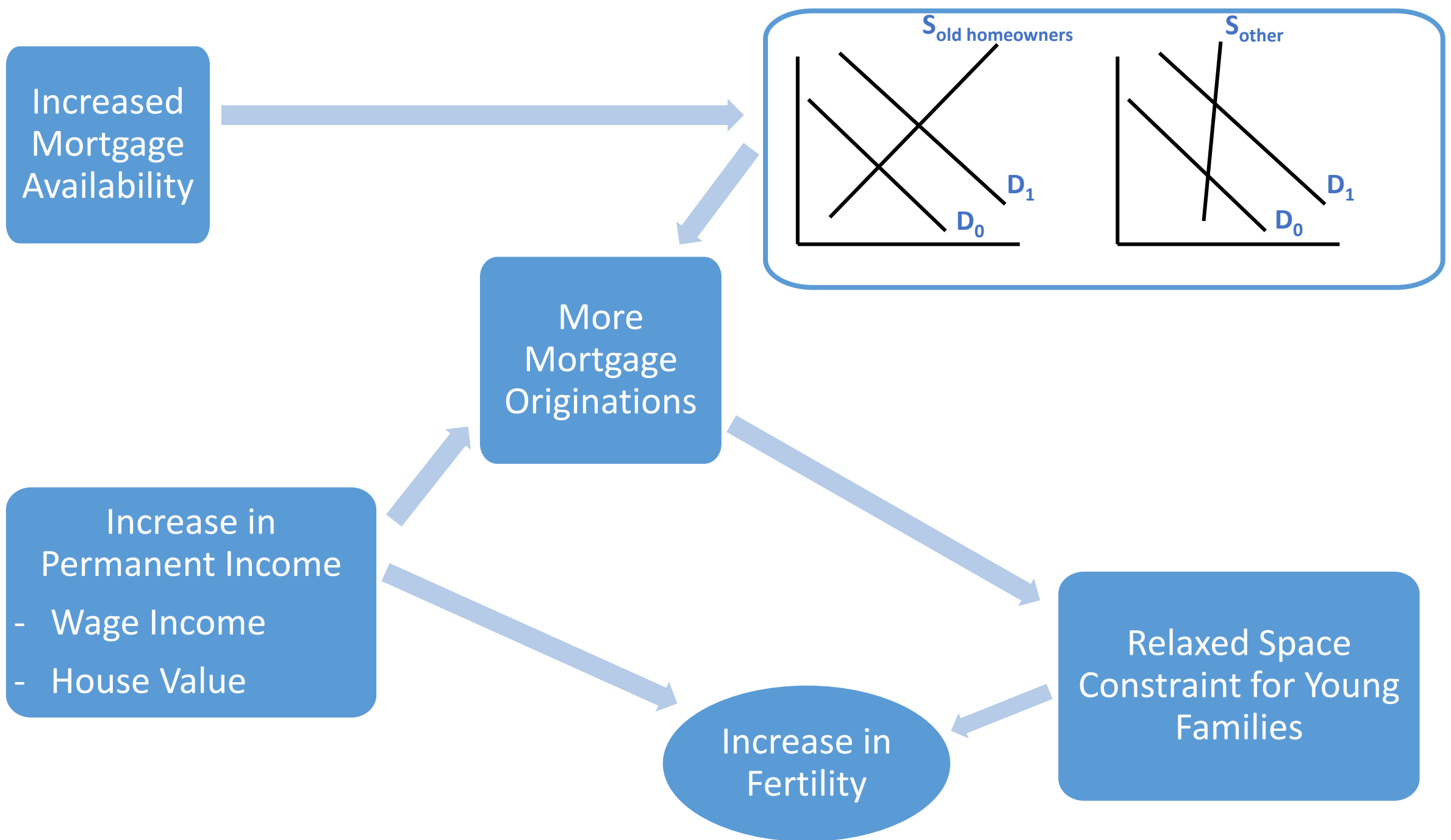
More
Mortgage
Originations

Increase in
Permanent Income

- Wage Income
- House Value

Relaxed Space
Constraint for Young
Families

Increase in
Fertility



Comments

- There is a lot going on during the sample period. Much of it is accounted for in the paper.
- All credit was cheaper in 2000 – 2006.
 - Young families' budget constraints were likely relaxed in other ways too: auto loans, consumer credit, student loans.
 - Then the channel may be:

access to other credit → family planning decisions →
purchase home → observed fertility outcomes

Comments

- Paper uses cross-sectional variation in demographics, mortgage originations and fertility rates
- Other plausible explanations why fertility would increase the most in areas with high concentration of old homeowners living alone?

Comments

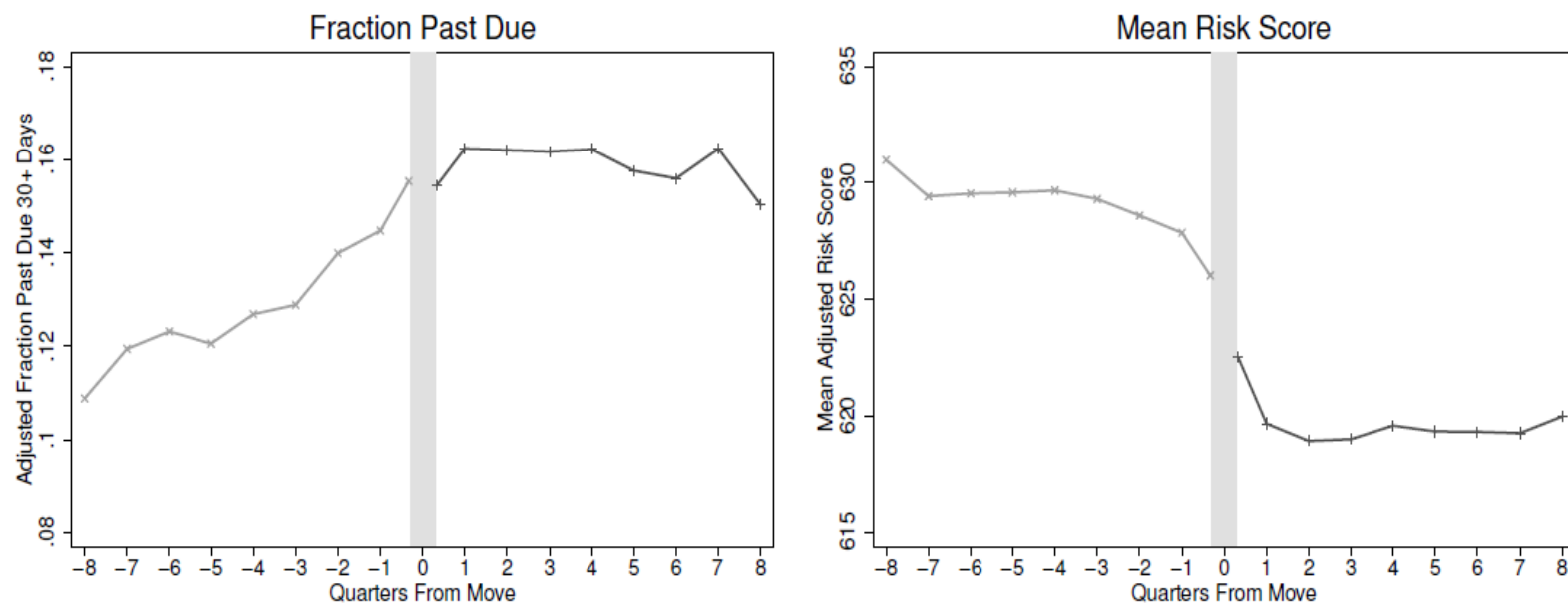
- Post-2006 results may tie in with homeownership and parental co-residence papers:
 - Young individuals accumulated high levels of debt during 2000 – 2006 period and had to move in with parents once the economy started taking a downturn
- Lovenheim and Mumford (ReStat 2013) – “Do Family Wealth Shocks Affect Fertility Choices? Evidence from the Housing Market”

Returning to the Nest: Debt and Parental Co-residence Among Young Adults

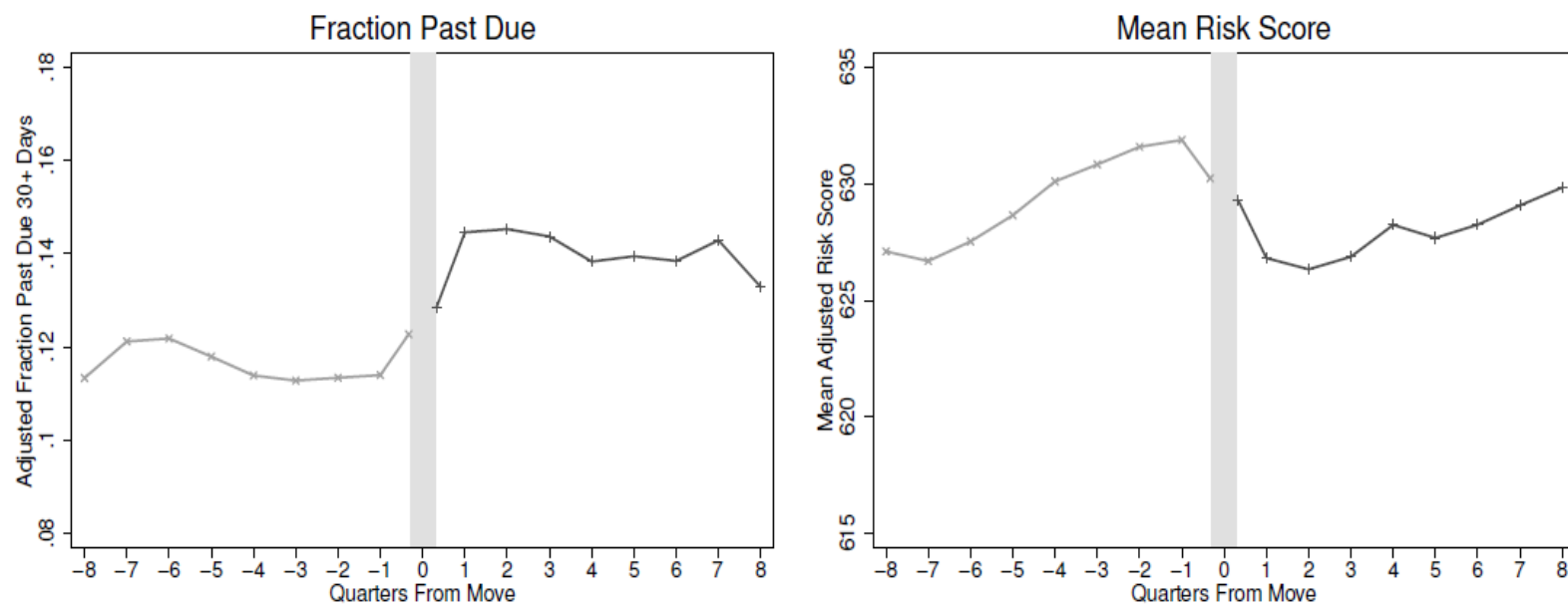
Lisa Dettling

with Joanne W. Hsu

(a) Young Adults Who Move Into Parental Co-residence



(b) Young Adults Who Move and Remain Independent



Borrowing Constraints for Young Consumers

- Young consumers get positive utility from disposable income and from living independently
- There is a tradeoff because independent living decreases disposable income
- Independent living may not be feasible once income falls below a certain threshold
- Disposable income = Earnings – Debt Payments + Amount borrowed against future income
 - Debt payments increase in existing loan balance
- There is evidence that the opportunity to borrow against future income tends to be low for this group

Counterfactual to \$1 of Unmanageable Debt

- Important for policy considerations
- \$1 decrease in consumption
 - For student loans this may also mean less education
 - Parental cohabitation is a form of insurance
 - Duration of cohabitation may increase in loan balance

Counterfactual to \$1 of Unmanageable Debt

- \$1 from parents
 - Are financial support and housing substitutes?
 - Paper finds some evidence against this, but not much information on parental resources
 - How does the credit status of household members that individuals move in with compare with age-adjusted sample averages?
- \$1 from other sources
 - From job: reduced employment incentives/higher reservation wage when cohabitation with parents is available
 - Duration of cohabitation spell may not correlate with debt balance
 - (For student debt) \$1 from grant aid or \$1 decrease in net price

Some Questions

- Does moving in with parents usually follow a short-term shock?
 - From the graph it looks like divergence starts several quarters before the move
 - Include more periods ($t - 1, \dots, t - k$)
 - What do specifications with change in balance look like? Results in Table 4 suggest that recent changes in indebtedness matter
- Is unobserved heterogeneity driving both financial status and the probability of moving in, with financial status being the first to react?
 - Include individual-level fixed effects
- Can school attendance be inferred (to some degree) from growth in student loan balance between consecutive periods?

The Big Picture

- Are the results of the 3 studies suggestive of inefficient level of borrowing?
 - Underborrowing due to credit constraints
 - Overborrowing?
- Or is the inefficiency manifested in insufficient insurance against income and/or consumption shocks?
- Have young people become more risk-averse after the financial crisis?
 - The economy is recovering, but young consumers still appear reluctant to purchase house or start family