Mondragon: Home Equity + Student Borrowing
Brevoort: Medicaid & Financial Health

Discussion, 2016 FDIC Consumer Research Symposium

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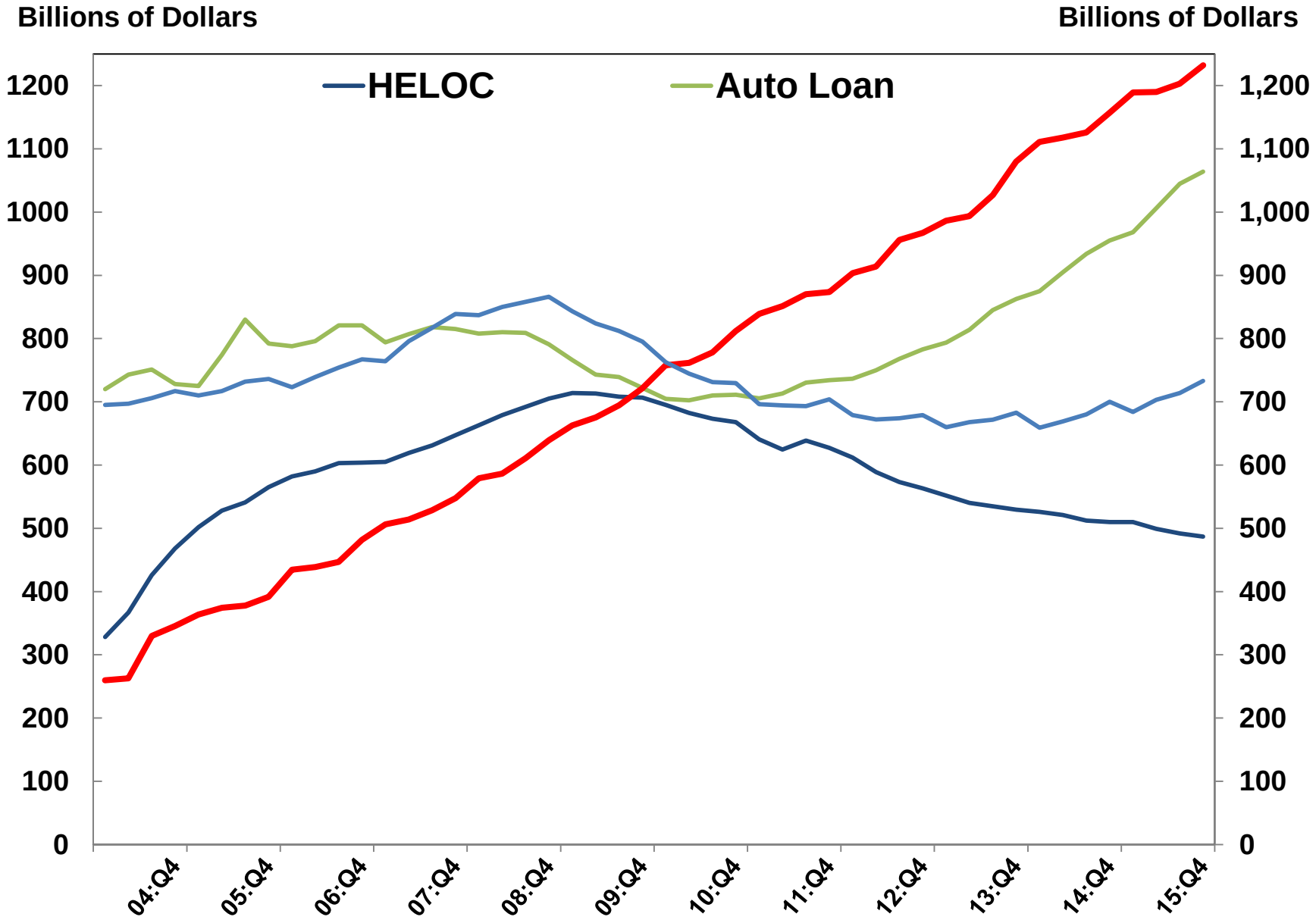
Mondragon et al., “The Housing Crisis and the Rise of Student Loans”

Aggregate non-mortgage balances by type, 2003-2015



Source: New York Fed Consumer Credit Panel / Equifax

Emphatic agreement & hesitant disagreement

- I've worked too closely to this topic to give an impartial discussion.
  - Instead, it will be characterized by some enthusiastic agreement, and some hesitant disagreement.
- Starting with the disagreement: Stein, Zafar, and I (JMCB2015) gave this a shot and couldn't find any evidence of SL-HELOC substitution, whether boom or bust.
- Why it's hard to find evidence (or to mount a "there does not exist" claim):
  - Must connect intergenerational households/families at the lifecycle stage at which household structure most fluid.
  - Must observe debt migrating across balance sheets / credit reports – from parent to child or v/v.
  - Borrowers &/or household heads aren't especially good at reporting household members' student debt in surveys. Misreporting strongly correl'd with outcomes. (Brown, Haughwout, Lee, van der Klaauw 2015; Brown, Hunter, Lee, vdK 2016)

Brown, Stein, & Zafar (2015)

- Our shot: CCP, zip code aggregates
- Zip codes experiencing greater house price growth over 2002-2006 showed no relative student debt decline
- Ditto for the bust – large zip code house price declines 2007-2012 not associated with greater student debt increases
- So any SL-HELOC/HELoan substitution is not so large that student debts are measurably responsive to house prices at the zip code level
- But students move out?
  - We chose zip code aggregates as the lesser of two evils, given the inherent coverage problems in tracking intergenerational households in credit data – 18-22yos aging into the panel, etc.
  - Sallie Mae (2012-2016): ~Half of college students live at home
  - Permanent address v. campus address

Mondragon et al. improvements

- The big improvement: PSID TAS data
- Tracking intergenerational households is inherently difficult for survey data on households of representative age
  - Even the infallible SCF struggles with this one. Their 2016 fielding has some clever work-arounds to enhance student debt evidence in the face of fluid young adult household membership, I hear.
- Mondragon et al. use a follow-up to the PSID CDS designed to track young adults across households.
- Hence PSID-level reliability of asset, debt, and education measures, in combination with a direct effort to address the household fluidity problem.

Mondragon et al. improvements

- Further improvement: 2005 forward
- Mondragon et al. weigh federal student loan interest rates and prevailing mortgage rates
  - Identify the post-2005 period (2005-2009?) as the period in which mortgage rates are favorable enough for home equity loans to be a viable substitute for SL.
- So the choice of time period and population must be surgically precise to capture an effect; other (we) had failed to work with a targeted enough population, and had failed to isolate the post-2005 period.
- With these data, Mondragon et al. are able to zero in on the subset of the population with housing equity and college student children, and here they demonstrate a meaningful SL-HELOC substitution.
  - 30% decline in house prices from the peak caused a $1300 per student increase (TAS) in mean student loans per college student.
  - For folks who do this, $1 home equity borrowing offsets $0.40-0.60 of student debt.

(Persistent) data limitations

- TAS Stable homeowner households 1999-2013, *N* = 1600
  - 24% have a kid of college age, so *N* = 384 candidate home equity extractors / student borrowers.
  - In the end, 9-15%, or *N* = 144 to 240 have a child who actually goes to college.
  - Between 2 & 9% of households, or 32 to 144 households, report having a member with a student loan.
  - 15-20% of the sample, or 240 to 320 extract equity using HELOC/Loan or refi.
  - Mondragon et al. observe that households with college students are 4 percentage points more likely to extract equity.
- Best data I've seen. Speaks to the difficulty of capturing this narrow slice of the lifecycle, across two households.

CCP Analysis

- Why were they able to find something we couldn't?
  - Constructed intergenerational households using any observed overlap in addresses between 18-22yos and 40-65yos.
  - (Small point: The mothers of this cohort had a median age at first birth of ~24. I suspect 40 is too old, start window younger. CPS very few coresident pairs ages 15 years apart are couples.)
  - Focused on 2005 forward – favorable interest rate window
  - Works in the CCP, just as it works in the TAS.

CCP Analysis

- Difficulties with the CCP analysis
  - Age 18-22 credit reports may be highly selected; moreover, may be selected on the outcome variable – most fileholders are “born” into the panel through either a student debt or a credit card.
  - By 25, the coverage is pretty good.
- Which is not to say don’t do this. Every shot at this question is an imperfect shot. It’s striking that the CCP and TAS results are consistent, once one narrows the population & timing.
- AND, at the same time, the fact remains that this SL-HELOC substitution is somewhat rare. Per Mondragon et al., highly consequential for those who (would) practice it. Per Mondragon et al. and Brown et al., not consequential enough to generate a meaningful association between local house prices and local student debt in a broader sample.

Enthusiastic agreement

- Central story of this paper includes that:
  - The house price decline of 2007 forward shifted a meaningful amount of the burden of paying for college onto the children of longtime homeowners and away from their parents.
  - But their enrollments changed little.
  - This was evidently facilitated by the U.S. student loan system.
- Our recent findings (Bleemer, Brown, Lee, Strair, vd Klaauw 2016):
  - The steep college & university tuition climb of the 2000s, and the associated de-funding of public universities, shifted a substantial portion of the burden of paying for college onto recent cohorts of students.
  - But their graduation rates were unchanged.
  - This was evidently facilitated by the U.S. student loan system.

Brevoort et al., “Medicaid and Financial Health”

Central strength of the paper: Superior data

- CFPB CCP sampling framework is designed to do as well as one reasonably can to capture fileholders who are more marginally attached to credit markets.
  - There are costs associated with this approach. They must cope with (pronounced?) panel attrition, they must assemble refresher samples using complex criteria. (Hearsay…)
- Their inclusive sample is particularly relevant for the question of Medicaid coverage and financial health.
- Moreover, they pull the lender/servicer/collector and narrative codes on all of the tradelines.
  - A vast data resource.
  - Difficult to slog through, I presume.
  - But offers the rare gem of this paper: ability to distinguish medical debt delinquencies.

Closely related work that lacks the medical bill flag

- Hu, Kaestner, Mazumder, Miller, & Wong (2016)
  - FRBNY CCP
  - Synthetic cohorts, interprets results as broad effect of the ACA
- Dussault, Pinkovskiy, & Zafar (2016)
  - FRBNY CCP
  - Triple diff, alternative source of variation

  http://libertystreeteconomics.newyorkfed.org/2016/06/is-health-insurance-good-for-your-financial-health.html
- There are other aspects of these papers to admire. Much to learn from their empirical approaches, some I've stolen below.
- BUT the debt they describe is general debt.

How good are the best data available on medical debt?

- Begin with the assumption: these are the best available data
- How good are the best available data?
- Coverage
  - Medical bills only appear when delinquent (special product?)
  - How many fileholders are born into the panel as a result of medical debt?
  - Is CFPB CCP panel coverage changing as a result of the ACA?
    - Could compare to Census in location x age cells
- Relevance depends on outcome measure, and on denominator. Census-denominated $s delinquent may be less of a concern.
- Bankruptcy filing & new delinquency among those with FICO < 620 though…

Institutional context

- Below 138% of the poverty line, citizens of adopting states post-ACA covered by Medicaid.
- Above 138%, they go to the exchanges.
- Non-adopters left “donut hole” 100%-138%; mandate still applied, but no Medicaid.
- Implementation of exchanges varied by state.
- Kowalski (2016) – Six states said they’ll give zero resources to ACA-related programs.
  - Their exchanges were “more adversely selected”
- To interpretation: Are these estimated effects the effects of expanding Medicaid coverage from (100% or otherwise – KY 16%) to 138% of the poverty line?
- Or are they the effects of the full bundle of ACA reforms on financial health? Hu et al., Dussault et al.

Institutional context

- Emergency unemployment benefit extension ended in December 2013.
  - Medicaid expansion date used in analysis is Jan 1, 2014.
  - Reduction in UI a confounding factor, generosity by state? Soften the results, as treated & untreated all undergo negative shock?
- Politics – State governors
  - Republican = { Generous BR exemptions, low pre-ACA Medicaid coverage, no ACA Medicaid expansion, reluctant compliance with exchanges, cheaper/shorter UI benefits }
  - Democrat = { Stingy BR exemptions, high pre-ACA Medicaid coverage, ACA Medicaid expansion adopted, enthusiastic exchanges, greater/longer UI benefits }
  - Effect of Medicaid expansion in the treated and untreated states would likely differ.

Institutional context

- Example – A generous BR exemption state that somehow managed to expand Medicaid nevertheless
- Likely a *bigger* Medicaid expansion, given likely lower Medicaid coverage before the ACA in a conservative-leaning state
- E.g., Arkansas & Arizona. Big homestead exemptions, relatively conservative-leaning states, nevertheless expanded Medicaid covg.
- Hence a larger estimated effect of ACA expansion among states with generous BR asset exemptions, potentially having little to do with the interplay of BR standards and Medicaid.
- Consider accounting for size of the Medicaid expansion / extent of pre-ACA Medicaid coverage? KY 16% again.

Institutional context

- Pattison (2015) – Southern bankruptcy judges push Ch 13 over Ch 7
  - p18 of Brevoort et al.: Adopting states Ch 7 more prevalent, non-adopting states Ch 13 more prevalent.
  - p33: Reform states Ch 7 BR declines, Ch 13 BR increases a little.
  - So ~true that the control states had judges that have historically pushed Ch 13. Implications for the Ch 7 v. Ch 13 findings?

- Six late-adopting states – some adopted in March 2014, when folks were signing up. Little difference?
  - Estimates robust to adding late-adpoters? March 2014 adopters?

Medical billing systems

- How much of the delinquent medical bill response is due to bringing formerly independent medical billing into the Medicaid or ACA exchange system?
  - Delinquent medical bills even among those able to pay can arise from improper billing.
  - Larger v. small medical bills results p25 – Brevoort et al. find most of the effect in new large bill delinquencies.
  - To what extent does this resolve the question? (Genuinely. Ever been billed for a C-section? Heart surgery?)
  - Lack of response in other collections encouraging re confounding collections changes, but perhaps worrying re “real” v. billing-only effects?
- Leads to yet another new and interesting question that these data can perhaps answer (wow):
  - Priority of consumer debts – are medical bills paid last?

In sum

- Brevoort et al. (2016) is
  - A particularly careful treatment
  - using rare and powerful data
  - of an important and very difficult empirical problem.
- Specialists in this narrow field will, perhaps rightly in some places, argue about the details of implementation,
- But, as an outsider, I found this paper, and especially its results on the specific patterns of medical debt delinquency, to be remarkably illuminating.