Is Student Debt a Barrier to Homeownership?

FDIC 2014 Consumer Research Symposium

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The views presented here are those of the author and do not necessarily reflect those of the Federal Reserve Bank of New York, or the Federal Reserve System
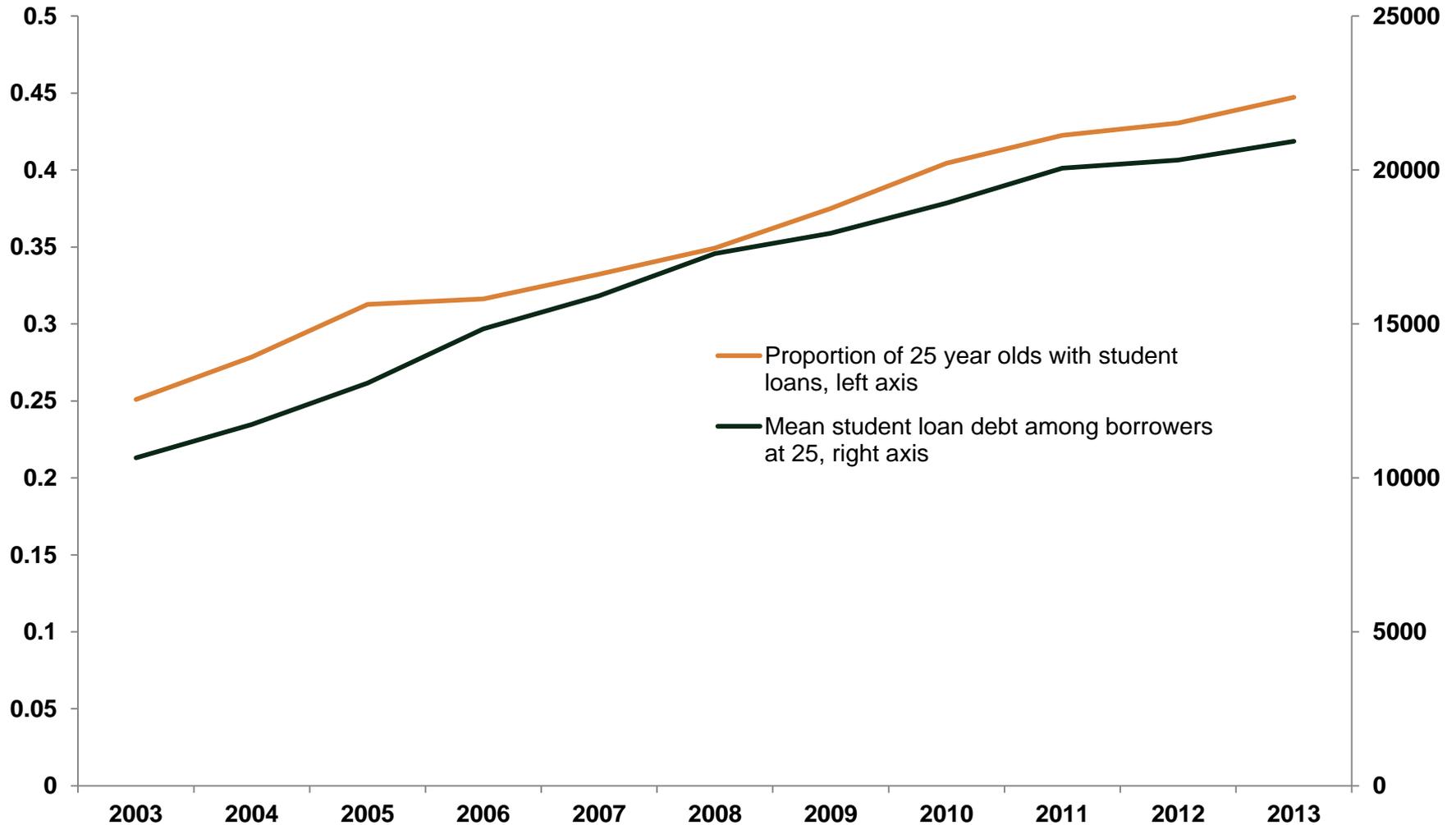
Data and collaborators

- 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

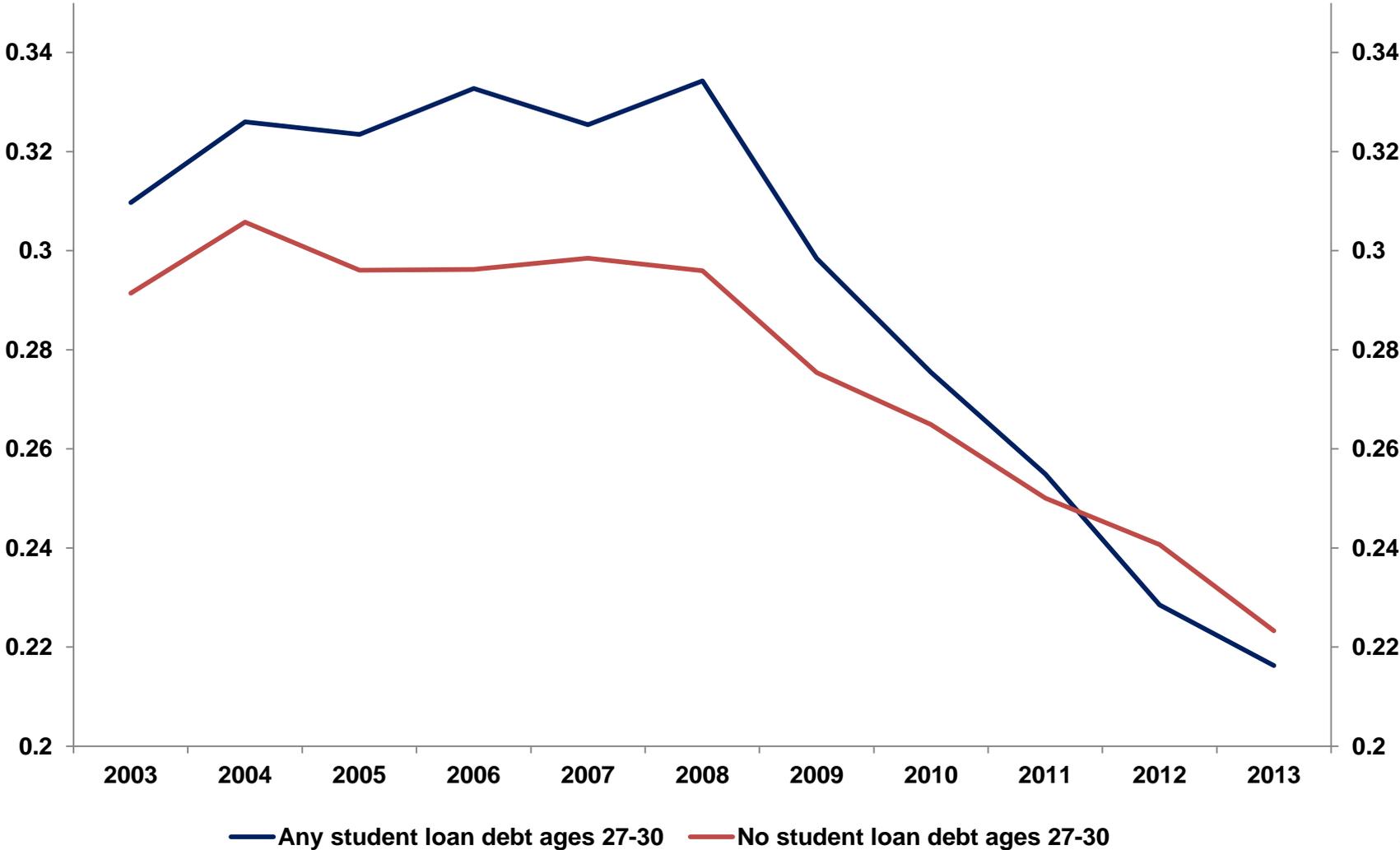**Student debt prevalence and mean among 25 year olds**

Proportion of 25 year olds with student loans, left axis

Mean student loan debt among borrowers at 25, right axis

Source: New York Fed Consumer Credit Panel / Equifax

Homeownership at 30 in the CCP, by student debt

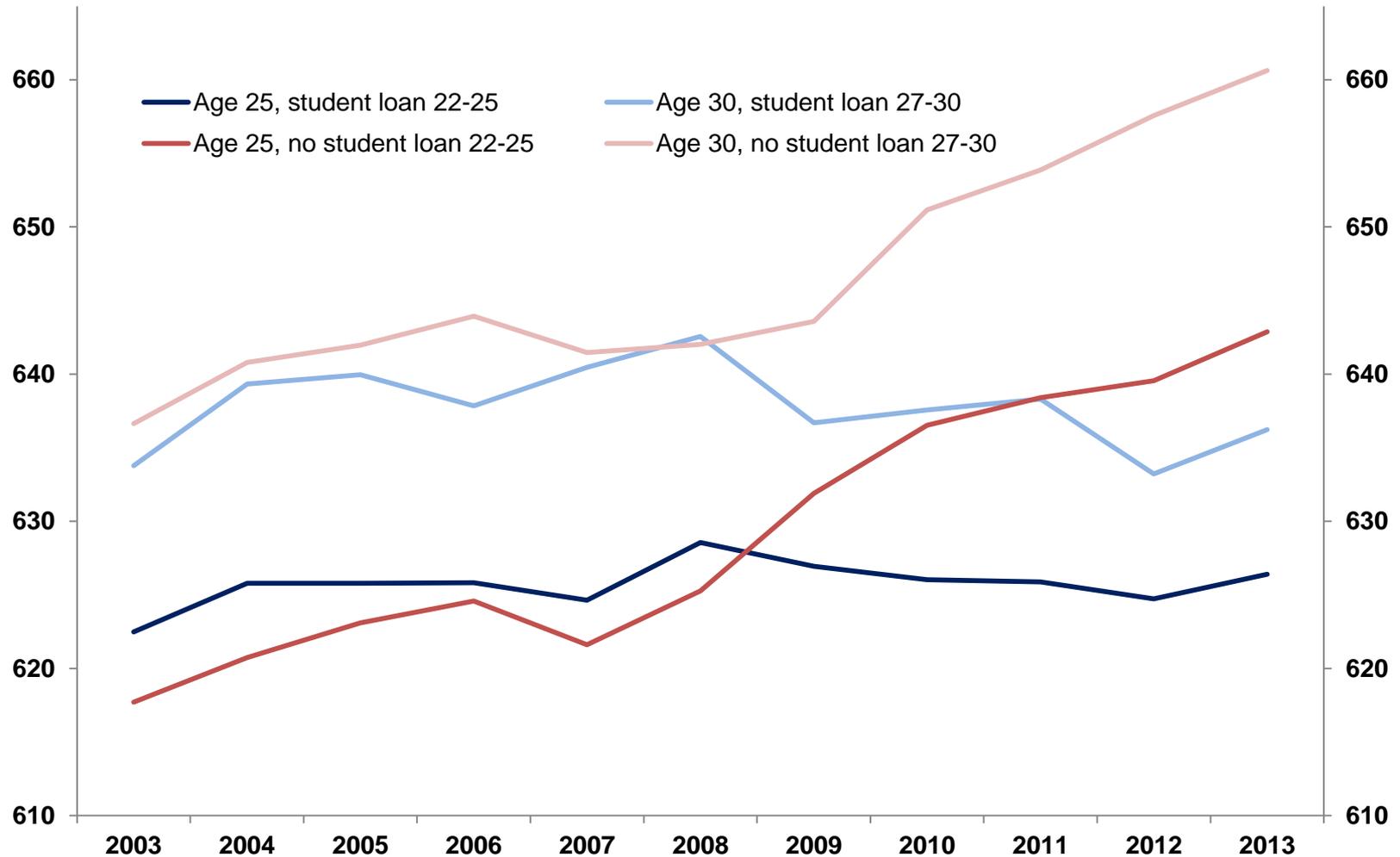**Proportion with home-secured debt at age 30**

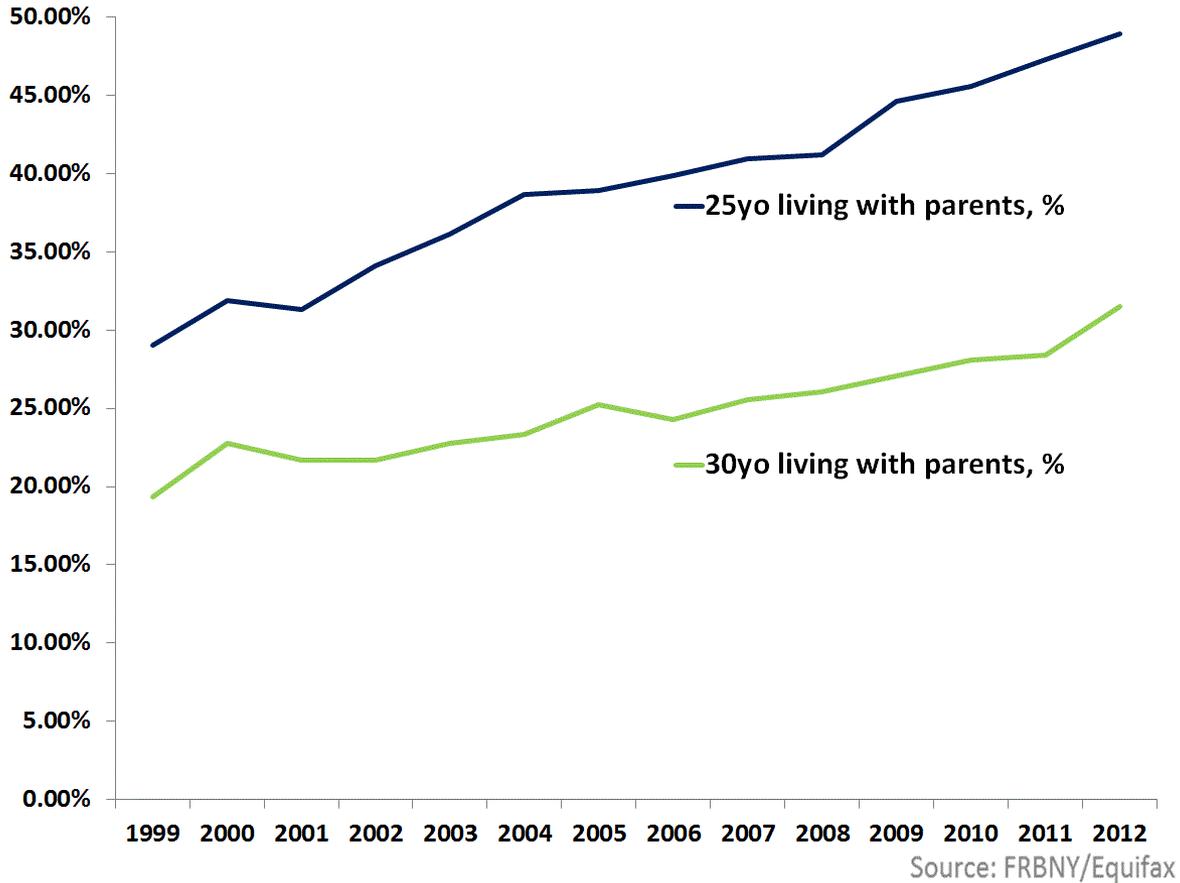Legend:
— Any student loan debt ages 27-30
— No student loan debt ages 27-30

Declining relative credit scores of student borrowers

Average risk scores at 25 and 30

Legend:
- Age 25, student loan 22-25
- Age 30, student loan 27-30
- Age 25, no student loan 22-25
- Age 30, no student loan 27-30

Source: New York Fed Consumer Credit Panel / Equifax

Living with parents in the CCP

Source: FRBNY/Equifax

Source: New York Fed Consumer Credit Panel / Equifax

CCP and CPS living with parents

Source: FRBNY/Equifax

Source: New York Fed Consumer Credit Panel / Equifax, CPS
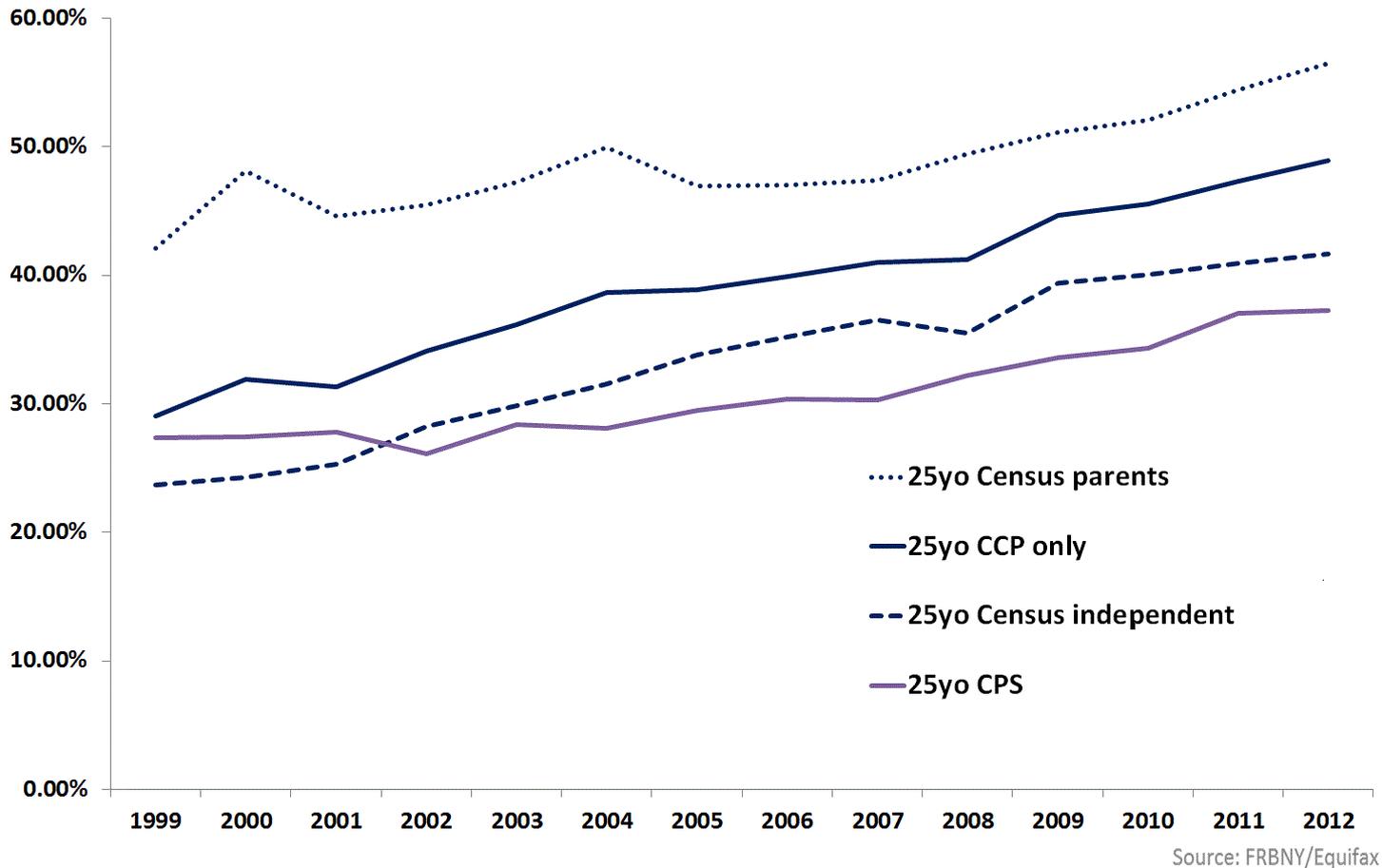
Residence arrangements of 25 year olds

Source: FRBNY/Equifax

Source: New York Fed Consumer Credit Panel / Equifax
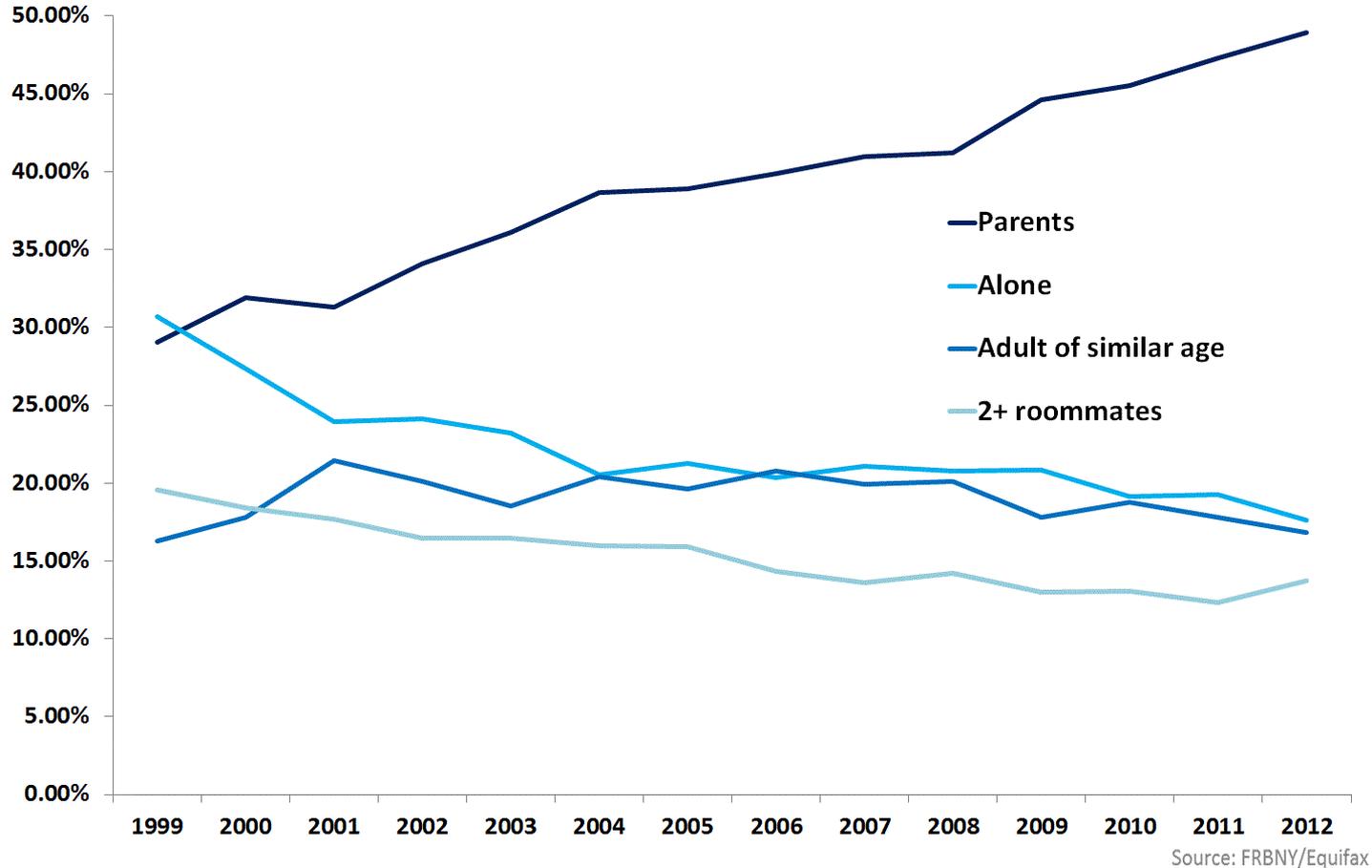
Homeownership and coresidence overlaid

Source: FRBNY/Equifax

Source: New York Fed Consumer Credit Panel / Equifax
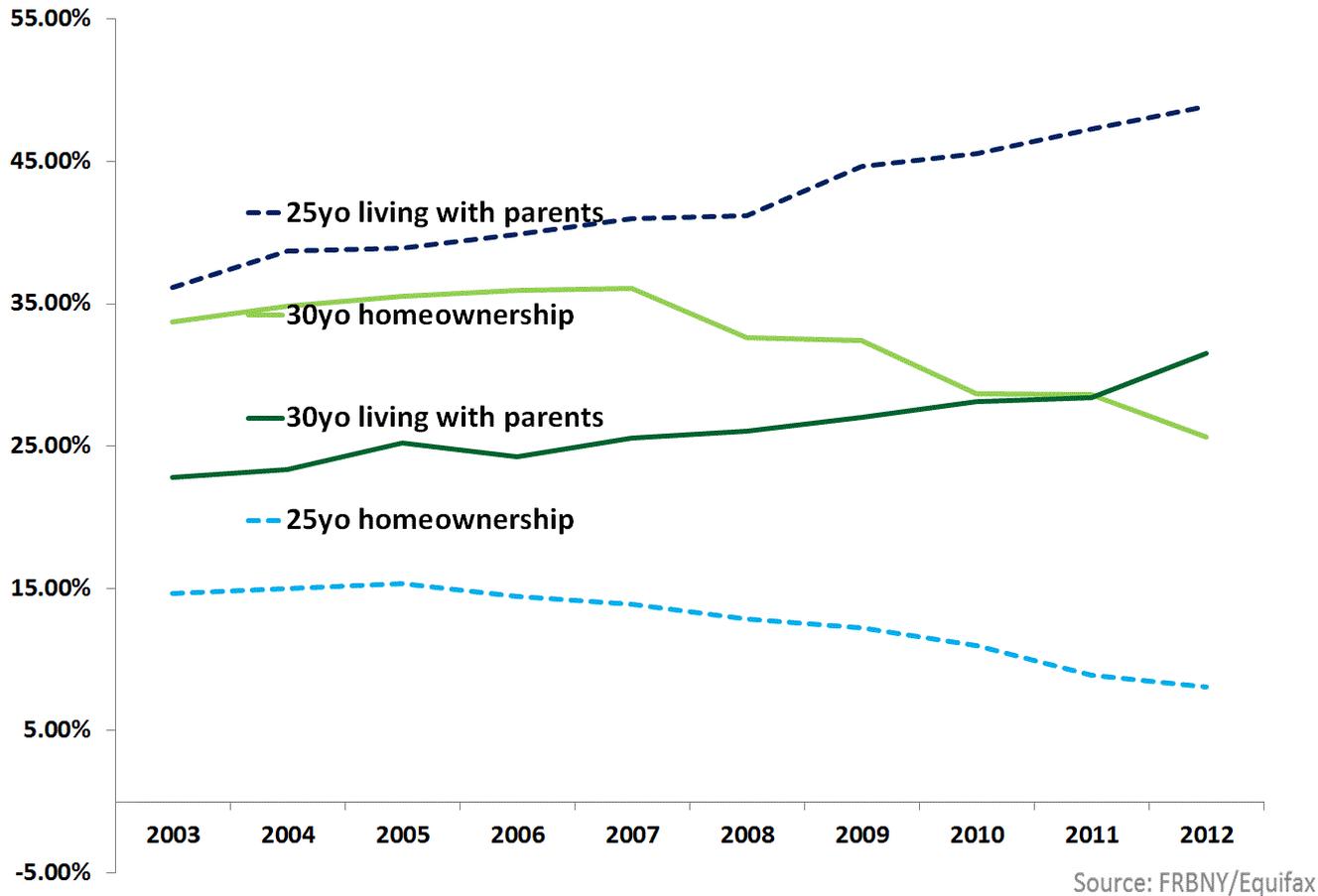
Prevailing economic conditions

Source: FRBNY/Equifax

Source: New York Fed Consumer Credit Panel / Equifax, CoreLogic, CPS
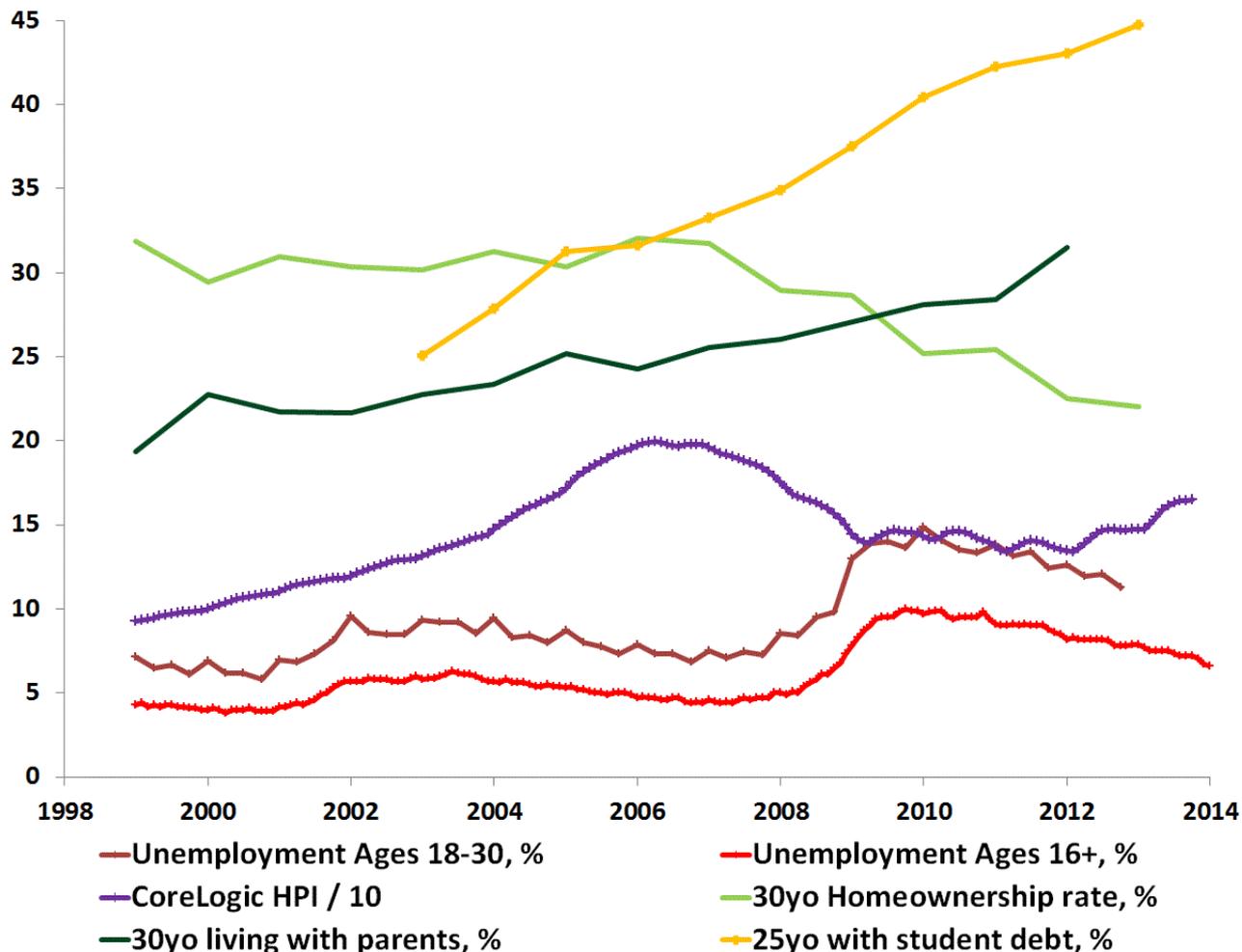
CCP Transition models of the move home, the move out

- 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.