The Effect of Student Debt on Home Ownership

4 Ways to Manage Your Student Loan Burden (Forbes, April 1, 2016) described the increase in student loan debt as a significant challenge that faces students, graduates, and parents – with a total of $1.2 trillion in outstanding student debt. While it suggests ways those with student debt can manage it (refinancing, deferment, etc.), repaying student debt can severely diminish discretionary income.

The Institute for College Access & Success reported that between 2004 and 2014, the share of graduates with student debt slightly increased from 65% to 69%. However, the average amount of debt by graduation rose twice as fast as inflation. It indicated that in Tennessee, the average debt incurred at public and private nonprofit 4-year institutions was $25,510 and that 60% of Tennessee's graduates had debt.

The total cost of (on campus) attendance for 2013-2014 ranged from $22,683 for 4-year public institutions, to $29,112 for 4-year private for-profit and $39,325 for private nonprofits. In addition to the cost of attending, there are other factors that determine the level of debt a graduate would incur, including the amounts of grants to students and their other sources of income. The percent of students receiving Pell Grants in Tennessee's institutions ranged from 14% at Vanderbilt University to 90% at Lane College. (Pell grants are need-based grants to lower income students to promote postsecondary education.)

A Federal Reserve Bank of New York (FRBNY) 2014 analysis of student debt using data from the FRBNY (Federal Reserve Bank of New York) Consumer Credit Panel was reported in an article titled *Young Student Loan Borrowers Retreat from Housing and Auto Markets.* The analysis compared debt per capita of 25 year olds with and without out student debt.

It identified tightened loan standards and lack of access to credit as a major contributor to lack of home-buying participation among the Millennial age group (a description of generational categories is below). This report is often cited in writings about the negative effect of student debt on home buying.

Larry Summers: Student Debt is Slowing the U.S. Housing Recovery (Wall Street Journal, May 21, 2014) states that student debt is estimated to have doubled between 2007 and 2014 to about $1.1

trillion. Summers, an economist who led President Obama's National Economic Council, expressed concern that the student loan debt now exceeds credit card debt in the United States. Summers also pointed out "A crucial factor slowing down the recovery has been the limited demand for homeownership resulting in part from a slowdown in family formation that is driven by the overarching life-shaping imperative of managing student debts for too many young people."

Generational Categories

A variety of sources such as the Harvard Joint Center for Housing Studies and the World Council of Credit Unions give slightly different years and age ranges for the generations named below. However, most sources use dates within a few years of each other. Some sources use up to six categories.

Category	Age Range
• Millennials (Gen Y, Echo Boomers) were born between 1981 and 2000	16 - 35
• Generation X were born between 1965 and 1980	36 - 51
• Baby Boomers were born between 1946 and 1964	52 - 70
• Seniors were born between 1927 and 1945	71 - 89

The research department of the National Association of Realtors® (NAR) collaborated with the American Student Assistance program $ALT® to survey student loan borrowers who were repaying their loans. Forty-three percent of those polled had $10,001–$40,000 in student debt, and 38% owed $50,000 or more. The most common debt burden was between $20,000 and $30,000.

Their survey found that 42% of respondents delayed moving out of a family member's home after college due to their loans and 24% delayed for two years or more. Eighteen percent were homeowners at the time of the survey, and 17% responded that they lived with friends or family and were not paying rent. The survey report, *Student Loan Debt and Housing Report 2016* states the following findings about housing and home ownership:

21%   Rent with roommates

19%   Live with friends or relatives and pay rent

17%   Live with friends or relatives and do not pay rent

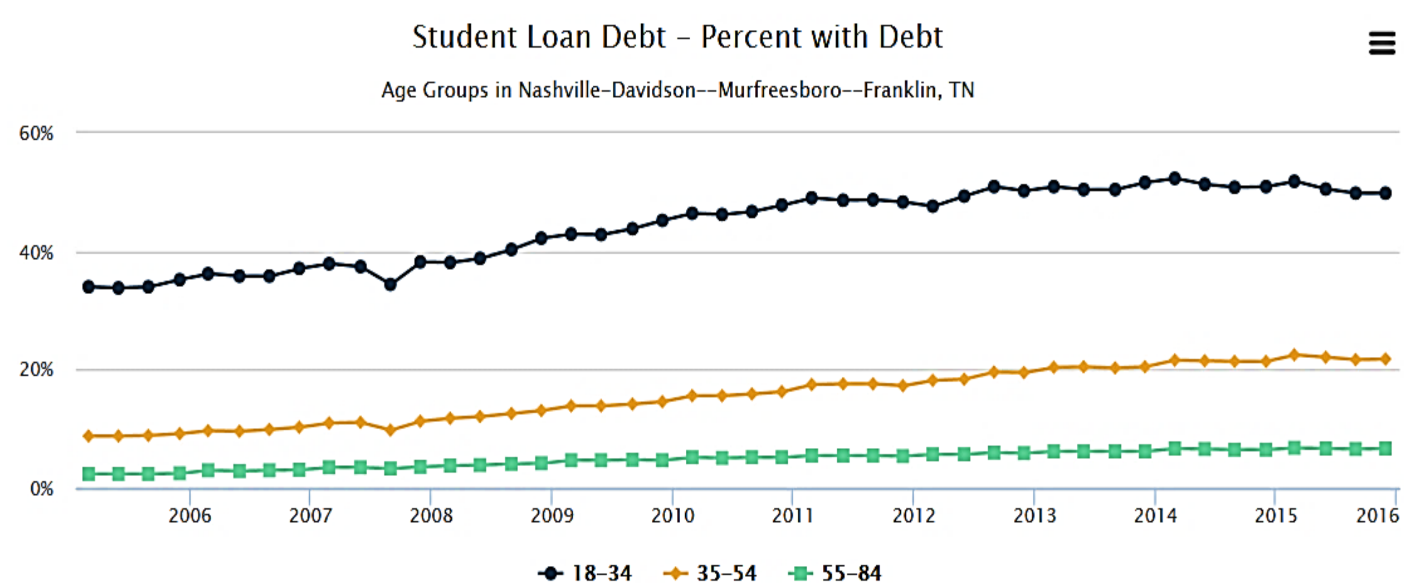
17%   Rent without a roommate

Eighteen percent responded that they owned a home, compared to 33% for Baby Boomers and 5% for the Younger Millennials. Seventy-one percent of non-homeowner respondents and 79% of Older Millennials stated their belief that student loan debt caused them to put off buying a home. Reasons included not being able to save for a down payment and not qualifying for a mortgage because of a high debt-to-income ratio.

The report contains many other survey statistics that show the negative effect of student college loans on home ownership and housing arrangements. The NAR's economist Lawrence Yun said, "A majority of non-homeowners in the survey earning over $50,000 a year – which is above the median U.S. qualifying income needed to buy a single-family home – reported that student debt is hurting their ability to save for a down payment."

One-fifth to one-third of homeowners surveyed said that debt payments limited their ability to move, make home improvements, or pay more toward an under-water mortgage. These issues exacerbate the current problem of low homes for sale inventory and tight market, with resulting high prices.

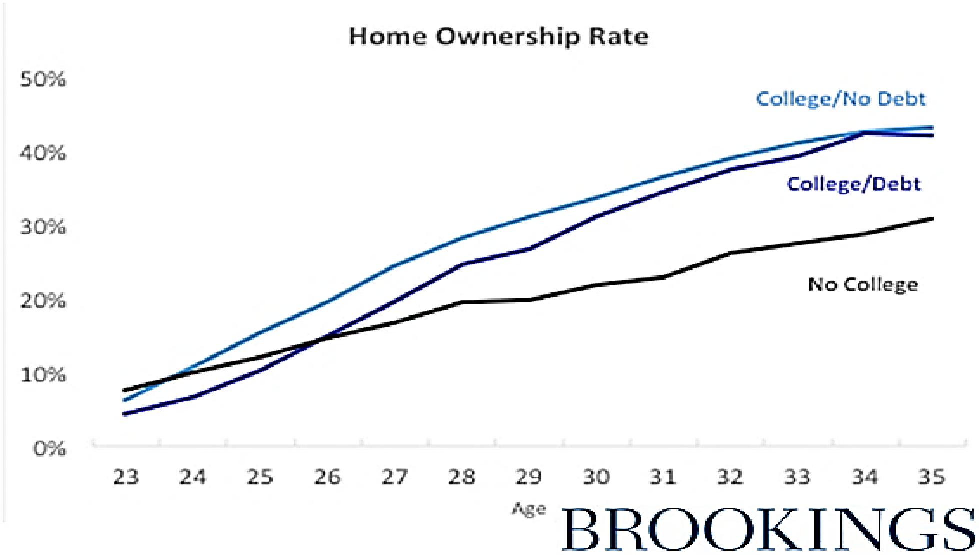
The chart below from the Consumer Credit Explorer of the Federal Reserve of Philadelphia shows the student loan debt of three age groups living in the Nashville/Davidson– Murfreesboro–Franklin Metropolitan Statistical Area as of August 2016. The 18-34 age group has had the highest student loan debt since 2006 and continues to have significantly more than the other two age groupings.



With regard to the housing recovery, comparing students with debt and those without debt may not give a complete picture. For example, a college education leads to better economic circumstances for graduates, which should increase their ability to obtain loans and subsequent ability to pay off their debt.

An analysis by researchers at the Board of Governors of the Federal Reserve System, *Student Loans and Homeowner Trends* (October 15, 2014), includes data from the National Student Clearinghouse (NSC). The NSC uses national-level data that includes college attendance, which was combined with credit data that resulted in slightly different results from the original FRBNY study. For example, their analyses indicated that homeownership rates differed considerably between those with no college education and those with some college education. They concluded that the homeownership gap is not between college-educated people who did and did not borrow, but between those with and without a college education.

The dividing line between haves and have-nots in home ownership: Education, not student debt from the Brookings' May 3, 2016 *Evidence Speaks* series suggests that a greater influence on the rate of home ownership is the level of educational attainment. It included the chart below that shows that the most likely group to be homeowners was college graduates who had no student debt, followed closely by college graduates with student debt, both significantly higher than for people who were not college graduates.



It concludes that even though people without a college degree may own homes at an earlier age than those who had college student loan debt, the college-educated catch up quickly. It states that by age 27 the college-educated group has more home ownership than those without a college degree. By age 35, home ownership of the college-educated group is about 14% higher than those without college.

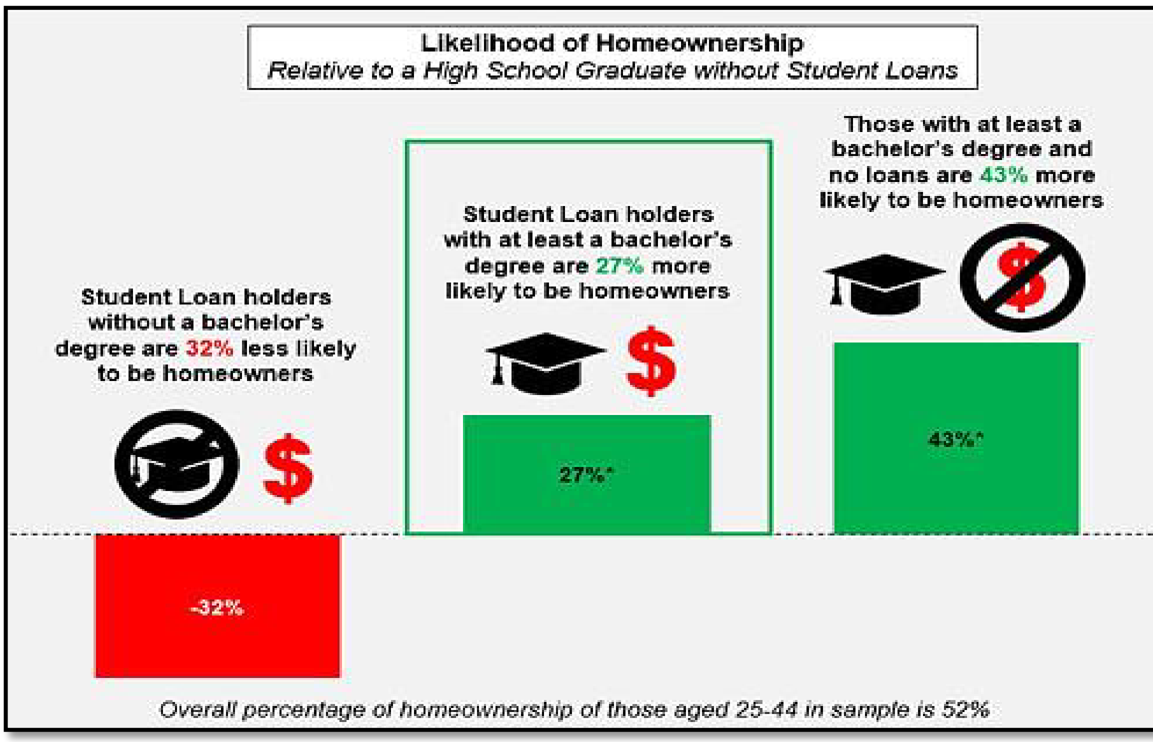
Student Debt: Whose Homeownership Rate Does It Hurt Most? (Fannie Mae, July 28, 2016) analyzed Fannie Mae National Housing Survey data regarding the effects of student loans and obtaining a Bachelor's degree. The report identified three key findings:

- The benefits of obtaining at least a bachelor's degree outweigh the burden that student loans place on homeownership likelihood.

- However, for those who started but did not complete their bachelor's degree, the negative effect of student loans on homeownership is particularly acute. Among 25- to 44-year-olds with student debt, 40 percent did not get their bachelor's degree.

- Having student loans may delay homeownership but does not seem to affect renters' long-term homeownership aspirations. The chart below shows the percentage advantage of a Bachelor's degree on the likelihood of home ownership.

It expressed uncertainty about the diminishing the value of a Bachelor's degree, as related to the increase in the level of student loan debt. However, it noted the importance of encouraging a higher rate of college completion to mitigate student loan delinquency rates and to increase the rate of home ownership.



The Mortgage Reports, an online newsletter by Full Beaker, Inc. (a registered mortgage broker company), provides an online interactive mortgage calculator. It also includes First-Time Home Buyers Guide: Buying with Student Loans and Debt, which states that homeownership and student debt are not necessarily incompatible. It notes that first time homebuyers are typically younger than the general home buying population (lower income, less savings, etc.) as well as higher in student loans and other debt. It explained that additional factors might influence the capacity to purchase a home, including the amount of down payment, credit score and debt to income ratio.