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# Student Loan Debt and the Housing Decisions of Young Households



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## Abstract

Between 2004 and 2014, aggregate outstanding student loan debt has more than tripled in real value. Even as households shed other types of non-housing-related debt, student loan debt was the only type of consumer debt to rise steadily during the Great Recession. Many are concerned that unmanageable student debt is holding back Millennials from becoming first-time homebuyers. A 2014 survey conducted by the National Association of Realtors found that among the 23 percent of first-time homebuyers who reported difficulties with saving for a down payment, over half (57 percent) cited student loans as a factor. Using data from the Federal Reserve Board's triennial Survey of Consumer Finances (SCF) from 1989 to 2013, this brief describes the growth of student loan debt among different demographic groups, especially among minority-headed households and those without a college degree. This brief also uses SCF data to analyze the extent to which young renter households aged 20 to 39 are burdened by their student loan payments and explores the potential implications of these payment burdens on future decisions to pursue homeownership.

Following the Great Recession, the share of young renter households aged 20 to 39 with high student loan burdens (those allocating more than 14 percent of their monthly income toward student loan payments) nearly quadrupled, from 5 percent in 2007 to 19 percent in 2013. Although the lowest-income young renters are faced with the highest payment burdens, even the lower payment burdens among renters in the top quartile are large enough to be factored into the ability to purchase a home. Student loan debt may also delay the accumulation of savings for a down payment on a home, as cash savings and assets are generally lower among young renters with student loans compared to those without them. Homeownership rates have been consistently lower among young households with medium and high payment burdens relative to those with low burdens. Since the author's analysis of student debt burdens excludes households who have not yet begun making payments on this debt due to deferral or forbearance, the prevalence of young renters with student debt payment burdens is likely to rise as this group enters the repayment cycle.

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## Introduction

Aggregate outstanding student loan debt has more than tripled in real value over the past decade, increasing from \$380 billion in 2004 to \$1.1 trillion in 2014. This growth in student loan debt occurred as households deleveraged and shed other types of consumer debt from their balance sheets in the wake of the Great Recession. Real aggregate credit card debt fell by 16 percent between 2010 and 2014, and other debt fell by 14 percent. In the process, student loan debt surpassed other forms of non-housing debt to become the largest source of consumer debt held by American households.

This research brief examines the growing importance of student loan debt for household budgets, and focuses on the implications of this debt for the housing decisions of young households. It has two objectives: (1) to describe the extent of growth in student loan debt, and (2) to examine the payment burdens faced by young renter households and their implications for households' abilities to purchase homes. The analyses also discuss trends in the incidence and amount of student debt held by different demographic groups.

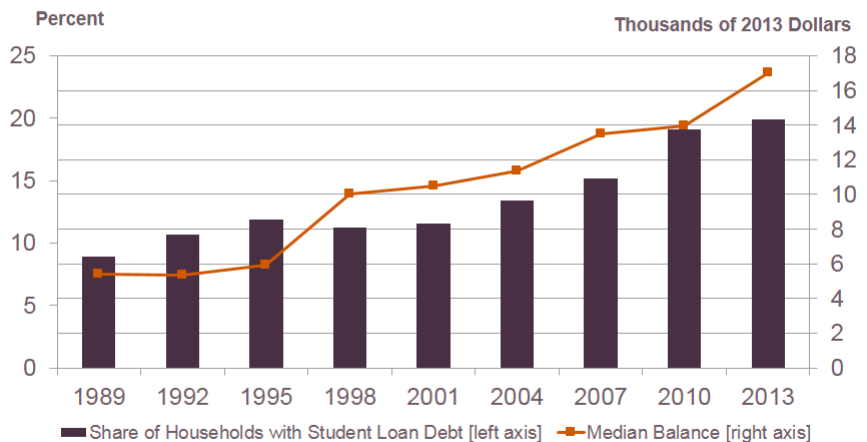
The data presented for each of these topics comes from the Federal Reserve Board's Survey of Consumer Finances (SCF), unless otherwise noted. SCF data provides detailed information about the assets and debts of a representative sample of American households, and thus makes possible the analysis of student loan debt and other financial measures at a household level. Because SCF data is collected at three-year intervals, it also allows the analysis to describe changes across time. The primary limitation of SCF data is that the data is self-reported by households and may therefore understate the presence of debt relative to other data sources. For example, the 2013 SCF implies that the value of aggregate outstanding student loan debt was \$711 billion; in comparison, the Federal Reserve Bank of

New York's Consumer Credit Panel suggests that the value reached nearly \$1 trillion by the first quarter of 2013. The upshot is that the values presented in this research brief, if anything, may understate the true value of outstanding student loans and other debts.

## Growth in Student Loan Debt

The dramatic growth in the aggregate value of outstanding student loan debt reflects increases in both the incidence and amount of student loan debt held by American households. The proportion of all U.S. households with student loan debt increased from 9 percent in 1989 to 20 percent in 2013. The median amount of student debt among these households simultaneously increased, in real terms, from \$5,423 in 1989 to \$17,000 in 2013 (2013 dollars) (Figure 1).

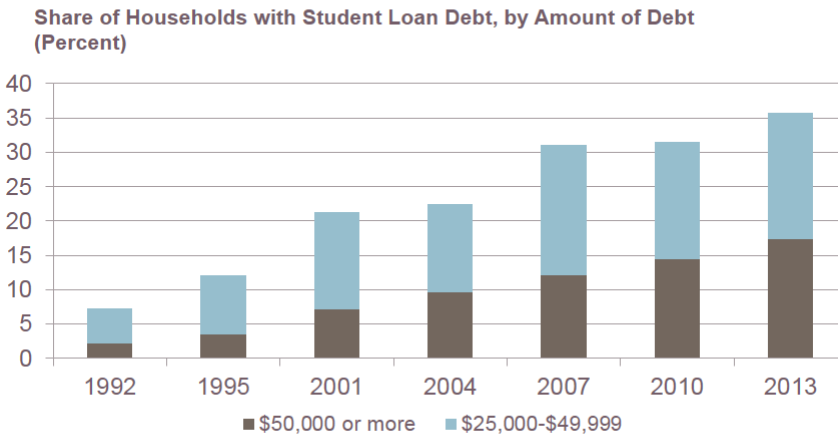
**Figure 1. Student Loan Debt Has Increased Substantially Over the Past Two Decades**



Note: Dollar values for student debt have been adjusted for inflation using the CPI-U For All Items.  
Source: JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances

While half of all student loan borrowers carry balances smaller than the median value of \$17,000, a growing share of the population faces much larger student loan debt balances (Figure 2). The proportion of borrowers with outstanding student loan

**Figure 2. The Share of Households with Debt of \$25,000 or More is Growing**



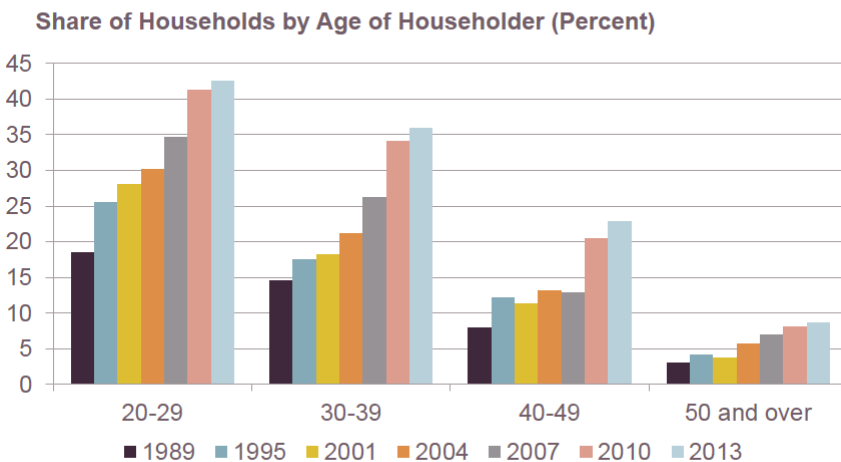
Note: Debt categories are based on 2013 dollars and have been adjusted for inflation using the CPI-U For All Items.

Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances.

debt of \$50,000 or more (2013 dollars) increased from just 4 percent in 1989 to 17 percent in 2013; in the same period, the proportion with student loan debt of \$25,000 to \$49,999 rose from 5 percent to 18 percent.

These student loan burdens are not evenly distributed across U.S. households. Instead, population-level figures obscure several patterns related to the allocation of student loan debt across households.

**Figure 3. Student Loan Debt is Becoming More Common Among All Age Groups, Including Older Households**



Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances

**Student Loan Debt is Most Common among Young Households but Increasing among Older Age Groups**

Perhaps not surprisingly, young households are more likely to have student loan debt than older households. Among households aged 20-39, the incidence of student loan debt was 39 percent in 2013—twice the incidence among the population of U.S. households. This share more than doubled from an incidence of 16 percent in 1989. The median outstanding balance of \$17,000 among households aged 20-39 is very similar to the median for the population as a whole.

While student loan debt is concentrated among young households, it is becoming increasingly common among older age groups (Figure 3). In 2013, 23 percent of households in their 40s and 9 percent of households in their 50s carried an outstanding student loan balance, up from just 8 percent and 3 percent, respectively, in 1989. Households aged 50 and over also accounted for nearly a quarter (23 percent) of all U.S. households with student debt in 2013, up from just 14 percent in 2001. While part of the increase in student loan debt among older households may be due to parents co-signing loans for their children’s education, the Government Accountability Office (2014) has suggested that it primarily reflects these older adults’ own educational expenses.

**Black Households are More Likely to Have Student Loan Debt than White or Hispanic Households**

The burden of increasing student loan debt falls more heavily on black households than on white or Hispanic households (Figure 4). Recent analysis of U.S. Department of Education data showed that borrowing rates are significantly higher among black students: 81 percent of black graduates from public colleges take out student loans, compared to less than two-thirds of white graduates

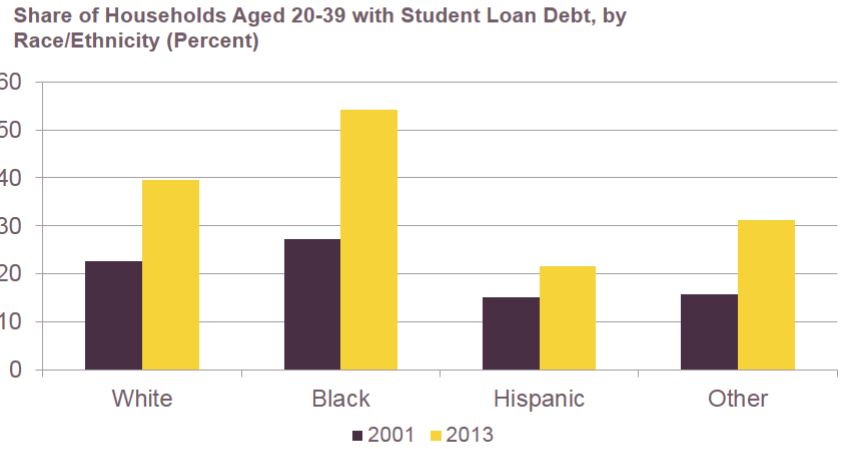
(Huelsman 2015). The higher borrowing rates among black students are also reflected in the data from the SCF: in 2013, nearly a third (32 percent) of all black households carried an outstanding student loan balance, in contrast to just 18 percent of white households. Among households aged 20-39, more than half (54 percent) of black households have outstanding student loan debt, compared with 40 percent of white households and 22 percent of Hispanic households.

The overall diversity of the student debtor population has also increased in recent years. Minority-headed households represented over a third (36 percent) of all households with student loan debt in 2013, up from 28 percent in 2001. Among households with more than \$50,000 in student loan debt, the minority share has increased from 20 percent in 2001 to 33 percent in 2013. This increasing racial diversity of student debtor households at least partially reflects broader demographic shifts in the racial/ethnic composition of today's households. According to tabulations of data from the U.S. Census Bureau's Current Population Survey, minority households made up 32 percent of all households in 2013, up from 28 percent in 2001.

### Households without a Degree Account for an Increasing Share of the Most Indebted

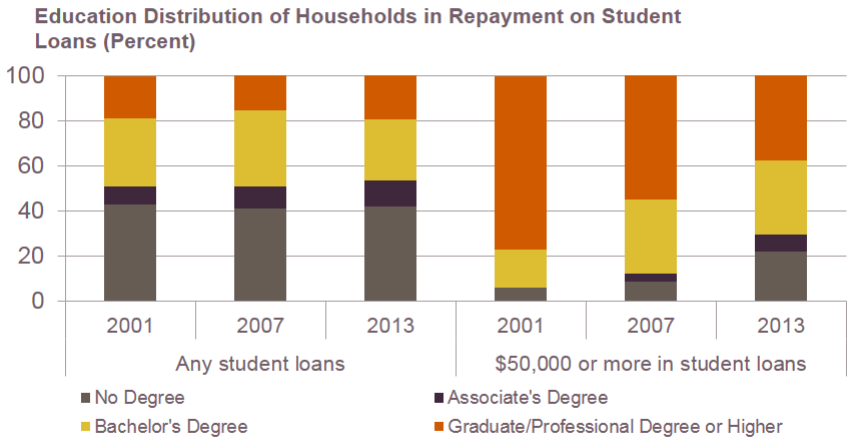
Recent reports have attributed the growing incidence of student loan debt, particularly among households with sizeable debt loads, to the rising number of borrowers pursuing graduate or professional degrees (Akers and Chingos 2014; Delisle 2014). Indeed, the number of households with graduate and professional degrees who are paying down outstanding balances of \$50,000 or more in student loan debt nearly doubled between 2001 and 2013. However, tabulations of SCF data show even faster growth in the number of households with a bachelor's degree, associate's degree, or no degree and sizeable

**Figure 4. Student Debt Incidence Highest Among Young Black Households**



Note: Race/Ethnicity is for household head only. White, black, and other households are non-Hispanic. Hispanic households may be any race.  
Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances.

**Figure 5. Debtors Without a Degree Account for a Growing Share of Households with at Least \$50,000 in Student Loans**



Note: Excludes households with student loans who are not yet in repayment. Graduate/professional degree or higher includes household heads who completed an MBA, doctorate, law or medical degree. Debt categories are based on 2013 dollars and have been adjusted for inflation using the CPI-U For All Items.  
Source: JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances.

debt (Figure 5). By 2013, households headed by a graduate or professional degree recipient accounted for just 38 percent of those in repayment with student loan balances of at least \$50,000, down from 77 percent in 2001. In contrast, during the same twelve-year period, the percentage of these most indebted households without a degree rose from 6 percent to 22 percent.

These figures describe loans in repayment in order to avoid grouping borrowers still in school with borrowers who have entered

repayment without finishing school. While some of the households without a degree may eventually return to school or complete a degree, the figures show clear increases in the presence of large student loan debts among households without a degree.

Among households without a degree who are paying down their student loans, having \$50,000 or more in student loan debt remains the exception rather than the rule—in 2013, only 9 percent of such households owed \$50,000 or more (Figure 6). Meanwhile, households headed by a graduate or professional degree recipient remain the most likely to carry a sizeable amount of debt—in 2013, nearly a third (31 percent) of households headed by a recipient of a graduate degree or higher owed at least \$50,000 in student loan debt.

25 percent, respectively) than white households (19 percent) to report attending “some college” without obtaining a degree.

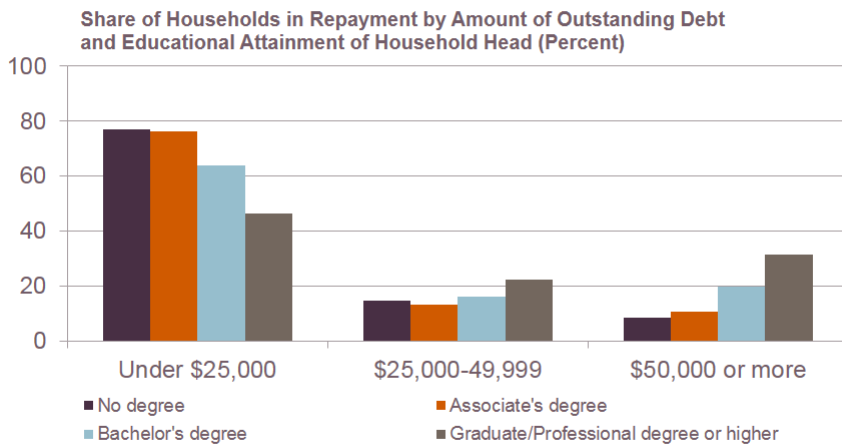
These figures raise concerns about the lasting burden of student loan debt for these households, particularly if they are not able to translate educational investments short of a degree into higher wages. The literature also suggests that borrowers who left postsecondary education without graduating are more likely than those who did graduate to have difficulties with making timely payments on their student loans (Cunningham and Kienzl 2011; Board of Governors of the Federal Reserve System 2015).

### Student Loan Payment Burdens and Housing Decisions among Young Renters

The growth of student loan debt in recent years places burdens on households’ incomes and abilities to save for the future. While there has been some debate on the appropriate benchmark for an unmanageable payment burden, much of the literature has indicated that student loan borrowers should not devote more than 8 percent of their gross monthly income to student loan payments (Scherschel 1998; King and Frishberg 2001; King and Bannon 2002; Baum and Schwartz 2005). The U.S. Department of Education currently uses Consumer Financial Protection Bureau (CFPB) guidelines for student loan debt burdens, which define burden according to percentage of monthly income made up by each monthly payment: for low, medium and high burdens, respectively, this percentage is less than 8, between 8 and 14, and more than 14.

These definitions focus primarily on a borrower’s ability to afford the student loan payments, and not on the potential for student loan payments to affect households’ longer-term finances. Several studies have begun to document links between student

**Figure 6. Households Headed by Graduate Degree Recipients Still Most Likely to be Paying Down High Student Loan Balances**



Notes: Excludes households with student loans who have not made any payments. Educational attainment is for head of household only. Graduate/ professional degree or higher includes household heads who completed an MBA, doctorate, law or medical degree. Debt categories are based on 2013 dollars and have been adjusted for inflation using the CPI-U For All Items. Source: JCHS tabulations of Federal Reserve Board, 2013 Survey of Consumer Finances.

The presence of student loan debt among households without a degree appears to disproportionately affect minority-headed households. More than half of black and Hispanic households paying down their student loans in 2013 did not have a college degree, compared to 40 percent of white households. Black and Hispanic households in repayment were also more likely (29 and

debt and the likelihood that a household owns a home, showing that higher outstanding loan balances are associated with lower likelihoods of homeownership (Brown and Caldwell 2013; Gicheva and Thompson 2014). This relationship reflects the underwriting process for mortgage loans, which consider an applicant's student loan payments in determining the amount of credit available to the borrower. For example, in order to qualify for a Qualified Mortgage under CFPB guidelines, a borrower's total debt-to-income ratio—including the mortgage payment and all other recurring debt payments such as student loans—cannot exceed 43 percent (Consumer Financial Protection Bureau 2013). The inclusion of student loan payments in a loan applicant's total debt-to-income ratio thus means that even low burdens may price some households out of the market or cause them to delay home purchase until they can qualify for a larger mortgage. High student loan payments will also reduce the amount of income that a household can save towards the down payment and closing costs associated with buying a home.

The following section describes the student loan burdens faced by renters, discussing the relationship between student loan debt and housing consumption and tenure decisions. The analysis stops short of measuring the impact of student loan debt on homeownership, for such measurement would have to account for the potential of student loans to increase household incomes by improving access to a college education. Instead, the objective is to document the student loan payment burdens facing young renters and the pathways through which student loan payments relate to decisions about homeownership.

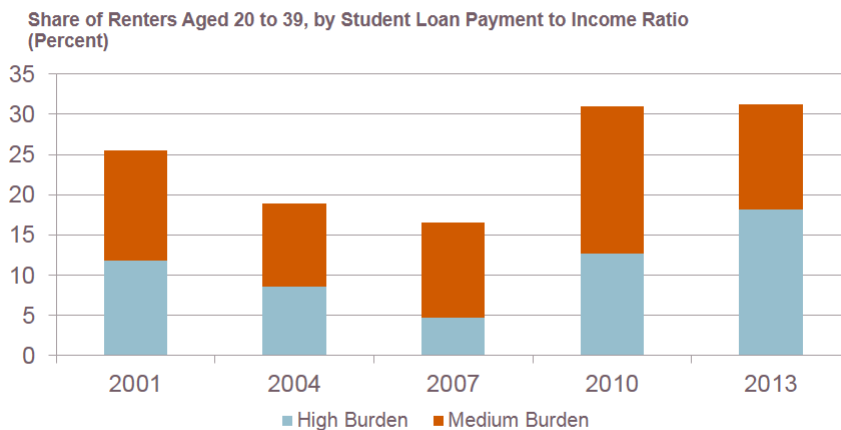
### Student Loan Payment Burdens Vary Widely

The growth of student loan debt among renters mirrors the dramatic increase among the population overall. In 2013, 27 percent of all renter households and 40 percent of renter households aged 20-39 had outstanding student loan debt, up from just 16 percent and 25 percent, respectively, in 2001. The median amount of student debt among all renters was \$15,000, and the median for renters aged 20-39 was \$16,000.

Under the CFPB classification, most renter households in the repayment period for their student loans have low payment burdens—69 percent of all renter households in repayment and 68 percent of such households aged 20 to 39 faced payments equal to less than 8 percent of their monthly income. In 2013, the median young renter household in repayment devoted 5 percent of monthly income to student loan payments, with a median monthly payment of \$150.

The share of young renters with medium or high student debt burdens—monthly payments equal to 8 percent or more of monthly income—accelerated following the Great Recession (Figure 7). Between 2007 and 2013, the percent of young renters with high student loan burdens increased from 5

**Figure 7. The Share of Young Renters With Sizeable Student Loan Burdens Has Grown During the Recession**



Notes: Excludes households not making payments toward their student loans. Thresholds for student loan burden were calculated using guidelines from the Consumer Financial Protection Bureau. Those paying less than 8% of their monthly income toward student loan payments have a low burden, those paying between 8% and 14% of their monthly income have a medium burden and those whose payments exceed 14% of income have a high burden. Ratios are based on 2013 dollars and are inflation-adjusted using the CPI-U for All Items. Source: JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances.

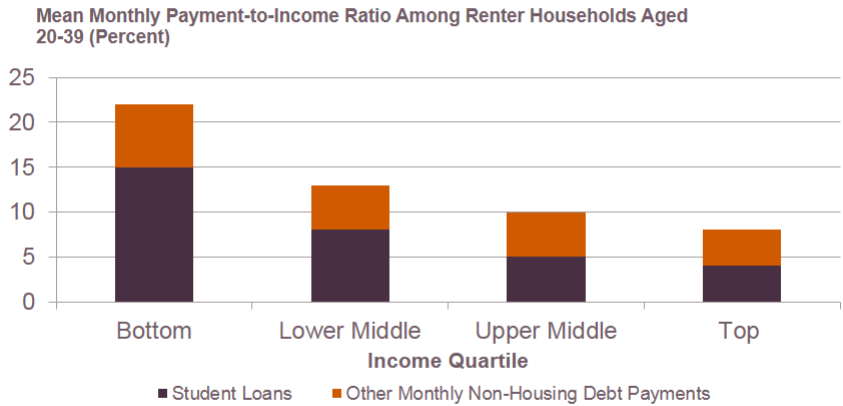
percent to 19 percent. This increase reflects both increases in student loan payment amounts and declines in income among young renters. The median student loan payment among young renter households increased 11 percent during this period, from \$135 in 2007 to \$150 in 2013. Meanwhile, young renter households' median monthly income fell 19 percent, from about \$3,700 in 2007 to about \$3,000 in 2013.

Young renter households' student loan payment burdens also vary substantially across different income groups (Figure 8). When renter households aged 20-39 in repayment are separated into income quartiles, the mean student loan payment-to-income ratio ranges from 4 percent for young renter households in the top quartile to 15 percent for those in the bottom quartile. When increases in other non-housing debt are included, the mean payment-to-income ratios increase to 8 percent for the top quartile and 22 percent for the bottom quartile. While the payment burdens are highest among young renters in the bottom quartile, even the smaller payment burdens faced by the top quartiles are sufficient to factor into their home purchasing calculations.

### Student Loan Debt May Slow Savings for a Down Payment

Student loan payments alter households' incentives to save in two ways. The first is obvious—monthly student loan payments reduce the amount of money available to the household. Second, in addition to making the monthly payments on their loan, households must make a portfolio allocation decision about what to do with any additional savings—pay down their student loans, or set the savings aside for retirement or a future down payment on a home. While making additional payments against loan principal may be the optimal decision for many households, such payments delay the accumulation of savings that could go toward a down payment.

**Figure 8. Student Loan Payment Burdens Increase Debt-to-Income Ratios at all Income Levels**



Notes: Excludes renter households with debt who are not yet in repayment on any of their loans. Other monthly debt payments include payments on revolving debt such as credit cards, as well as car loan payments. Income quartiles are based on equal fourths of the households shown. The monthly income limit for the bottom quartile is \$2,000; \$3,900 for the lower middle; and \$7,400 for the upper middle. Ratios are based on 2013 dollars and are inflation-adjusted using the CPI-U for all items. Source: JCHS tabulations of Federal Reserve Board, 2013 Survey of Consumer Finances.

The SCF data highlights differences in the financial assets of young renters with and without student loans. As the table below indicates, cash savings and assets are generally lower among young renters with student loans than among those without them (Figure 9). While these differences are attributable to many factors beyond the presence of student loan debt, they are useful in determining the extent to which young renters with student loan debt might be able to make a down payment on a home.

**Figure 9: Young Renters With Student Loans Have Less Wealth Than Those Without This Debt**

Median Net Wealth, Cash Savings and Assets of Young Renter Households Aged 20-39, by Educational Attainment and Presence of Student Loan Debt (2013 Dollars)

|                     | College Degree |          | Less than 4-Year College Degree |          |
|---------------------|----------------|----------|---------------------------------|----------|
|                     | No Debt        | Has Debt | No Debt                         | Has Debt |
| Median Net Wealth   | 27,000         | -9,640   | 6,920                           | -5,840   |
| Median Cash Savings | 7,500          | 3,500    | 500                             | 500      |
| Median Assets       | 31,000         | 20,100   | 9,301                           | 8,970    |

Note: Educational attainment is for head of household only. College degree refers to head of households who completed a bachelor's degree, master's degree, professional degree or other higher degree such as a doctorate. Less than a four-year degree includes those with an associate's degree, some college, high school diploma or GED. Source: JCHS tabulations of Federal Reserve Board, 2013 Survey of Consumer Finances.

Figure 9 also highlights differences in the financial assets of households with and without a college degree. For those without a college degree, the presence of student debt is not associated with substantial differences in households' cash savings and assets, perhaps because the financial assets of households with and without student debt are both limited. In contrast, among college-educated households, households with student loan debt have notably less cash savings and assets than those without debt.

### Delinquency and Default Rates are on the Rise

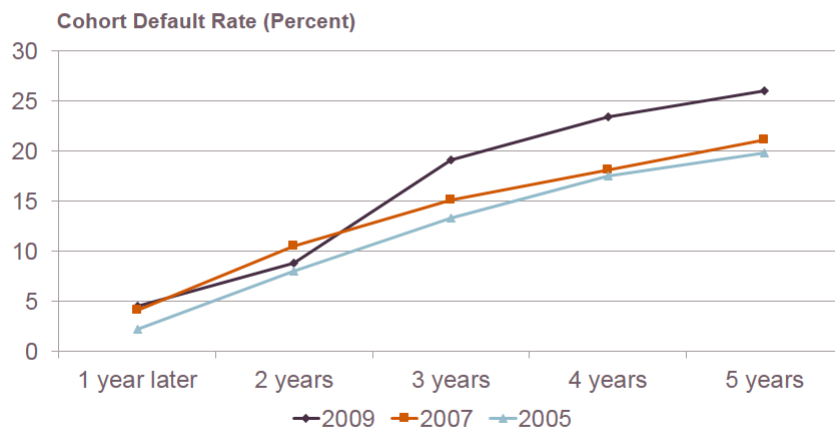
While making on-time payments on student loan debt can help borrowers build their credit history, delinquencies and default can harm households' abilities to access low-cost credit. Student loan servicers report all serious delinquencies—typically defined as 60 or 90 days past due—to the three major credit bureaus, which can affect the credit scores of delinquent borrowers for up to seven years. Additionally, borrowers who reach 270 days past due are considered to have defaulted on their loans, which can have further serious implications such as

wage garnishment and withheld tax refunds (U.S. Department of Education). Unlike other forms of debt, student loan debt cannot be discharged in bankruptcy, so borrowers in delinquency or default face long struggles to repay the debt (Atkinson 2010).

Using student loan records from five major loan guarantee agencies, Cunningham and Kienzl (2011) report that, among students that entered repayment in 2005, 15 percent defaulted and another 26 percent experienced at least one period of delinquency over the next five years. Another 16 percent had loans in forbearance or deferment for economic hardship. Altogether, over half (57 percent) experienced a period where they did not make expected payments toward their outstanding student loan balances. Similar figures are not available for the population of young renter households; however, these figures suggest that student loan delinquencies may create lasting challenges for many households.

Over the past decade, the increases in the incidence and size of student loan debts have been accompanied by increasing default rates. Data from the Federal Reserve Bank of New York's Consumer Credit Panel shows consistent increases in the cohort default rates of student loan borrowers who entered repayment in 2005, 2007 and 2009 (Figure 10). Among the 2009 cohort, 19 percent of borrowers defaulted within three years and 26 percent defaulted within five years, whereas for the 2005 cohort, the corresponding figures are 13 percent and 20 percent (Haughwout et al. 2015). Indeed, the US Department of Education's Federal Student Aid Data Center indicates that as of the third quarter of 2015, 3.2 million borrowers are currently in default, up by more than half (52 percent) from the same quarter two years ago. These rising rates of default raise concerns about the extent to which student loan burdens will negatively impact these households' long-term finances.

**Figure 10. Compared to Older Cohorts, Student Loan Default Rates Have Increased Much More Rapidly Among Most Recent Group of Borrowers**



Note: Cohort years refer to the year in which borrowers in that group enter the repayment period on their student loans.  
Source: Federal Reserve Bank of New York's Consumer Credit Panel. April 16, 2015, "Just Released: Press Briefing on Student Loan Borrowing and Repayment Trends, 2015", by Andrew Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaauw.



## Large Student Debt Burdens Likely Contribute to Declining Homeownership among Young Households

Homeownership rates among households in their 20s and 30s—an age group that traditionally accounts for a substantial share of first-time homebuyers—continue to plummet. According to the SCF, homeownership rates for households aged 20-29 and those aged 30-39 fell in 2013 to their lowest levels since regular administration of the SCF began in 1989. Among households aged 20-29, the homeownership rate stood at 25.7 percent in 2013, and the rate for households in their 30s was 53.2 percent. Evidence increasingly suggests that rising student debt may have contributed to declining homeownership among young households (Brown and Caldwell 2013; Gicheva and Thompson 2014). However, these declines in homeownership coincide with the foreclosure crisis and the Great Recession, and with the tight credit market conditions that followed, all of which occurred during the prime years for many young households to purchase their first homes. Researchers from the Federal Reserve Bank of New York attempted to isolate student debt from other economic factors, such as local employment and housing market conditions, in order to estimate the impact of each factor on young adults' decisions about whether to live with their parents (Bleemer et al. 2015); however, most existing studies have not yet disentangled these factors to measure how much of the decline in homeownership rates can be attributed to rising student loan debt.

The trends in homeownership rates for young households with and without student loan debt are shown in Figure 11. This figure shows that households with low student loan burdens have historically had homeownership rates similar to or above the homeownership rates among households without student loans. This relationship likely reflects the value of student loans in

**Figure 11. Homeownership Rates Have Remained Consistently Low Among Young Households with Medium or High Student Loan Payment Burdens**

Homeownership Rates Among Households Aged 20-39 (Percent)

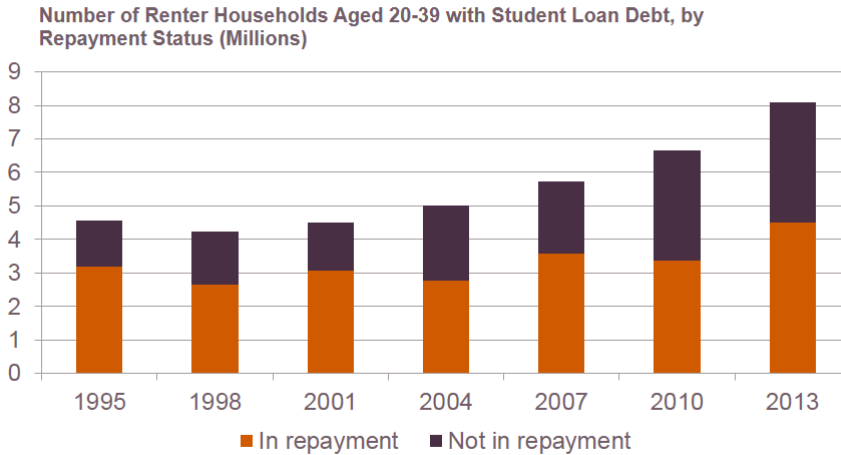
| Survey Year | All  | No Student Loans | In Repayment on Student Loans |               |             |
|-------------|------|------------------|-------------------------------|---------------|-------------|
|             |      |                  | Low Burden                    | Medium Burden | High Burden |
| 1992        | 44.4 | 47.2             | 45.6                          | 27.2          | 19.8        |
| 1995        | 45.3 | 47.3             | 48.8                          | 21.9          | 14.8        |
| 1998        | 47.3 | 48.8             | 56.9                          | 22.0          | 33.8        |
| 2001        | 47.2 | 48.9             | 51.0                          | 36.3          | 25.4        |
| 2004        | 48.0 | 49.7             | 54.6                          | 35.7          | 38.3        |
| 2007        | 48.7 | 50.1             | 53.9                          | 27.9          | 40.2        |
| 2010        | 44.9 | 43.4             | 62.9                          | 32.1          | 24.7        |
| 2013        | 42.1 | 43.2             | 56.8                          | 41.3          | 11.1        |

Note: Burden calculations exclude households with student loans who have not entered the repayment period and include those with zero monthly income. Low burden is equivalent to those who devote less than 8 percent of monthly income to student loan payments; medium is equivalent to 8-14 percent of monthly income; and high is equivalent to more than 14 percent of monthly income. Source: JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances.

helping households access higher education and in increasing their earnings profiles. However, the rates also show consistently lower levels of homeownership among households with medium and high payment burdens.

Comparing the relative homeownership rates of households with and without student loan debt is complicated by multiple factors. Differences in age, college attendance, family wealth, attitudes toward debt, and a number of other factors all make it difficult to produce an apples-to-apples comparison that isolates the contribution of student loan debt to the overall homeownership rate. Nonetheless, multiple types of evidence suggest that student loan debt has at least some impact on young households' abilities to become homeowners. One study suggests that rising student debt may lead young adults to delay homeownership rather than avoid it entirely (Mezza, Sommer, and Sherlund 2014). Other studies use regression analyses to attempt to control for the full set of differences between households with and without student debt. Cooper and Wang (2014), Houle and Berger (2014), and Gicheva and Thompson (2014) examine the relationship between student debt and homeownership using different data sources, time

**Figure 12. Nearly Half of Young Renters with Student Loans Have Not Entered the Repayment Cycle**



Note: Excludes renters aged 20-39 without student loans.  
Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances.

periods, and methodologies. While each of these studies finds that student loan debt reduces the likelihood of homeownership, the authors note the challenges of isolating the causal effect of student debt and are cautious in drawing conclusions about the size of the effect.

The finding that student loan debt creates an obstacle to home purchase for some households is also corroborated by surveys of recent homebuyers. For example, a 2014 survey conducted by the National Association of Realtors (NAR) found that only 33 percent of 2014 homebuyers were first-time purchasers—the lowest share since 1987—and that among the 23 percent of first-time homebuyers that reported difficulties with saving for a down payment, over half (57 percent) cited student loans as a factor. A recent loanDepot survey also suggests that growing numbers of parents are helping their millennial children purchase their first homes by helping them pay down their student debt.

### The Consequences of Student Loan Debt Will Only Get Larger

The current structure of outstanding student loan debt increases the importance of con-

tinuing investigation into the consequences of these debts for young households. As of 2013, nearly half of the \$711 billion in student debt observed in the SCF data was held by households that have at least one student loan in deferral. In fact, nearly half (45 percent) of renter households aged 20-39 with student loan debt have not yet made any payments toward their outstanding student loan balances (Figure 12).

Borrowers are able to defer their loans if they are still in school (defined as being enrolled at least half-time in a postsecondary institution). Borrowers who are unemployed or unable to obtain full-time employment are also able to defer their loans for up to three years. As a result, the total number in deferral includes both originations where payments are pending and loans where the borrower is experiencing financial hardship. In both cases, this outstanding debt represents a looming burden on these households' finances. The implication of this outstanding debt for this research brief is that the impact of student loans on homeownership rates, especially for young renters looking to transition to homeownership, is only likely to increase as loans in deferral reach the repayment period or exhaust the three-year grace period for financial hardship.

## Conclusions

Although young borrowers who have difficulty making their monthly student loan payments can turn to options such as deferral or forbearance to postpone their payments and avoid delinquency, these options are time-limited and do not address the underlying circumstances—low incomes, difficulty with finding well-paying jobs—that make these options necessary in the first place. As this brief shows, declining incomes among young renters with student loans have contributed to the accelerating increase in the share of those with medium or high student debt burdens following the Great Recession, with those at the lower end of the income

distribution most likely to bear the brunt of these burdens.

Young borrowers with federal loans who are faced with unexpectedly low earnings after graduation can take advantage of income-based repayment (IBR), income-contingent (ICR) and Pay-As-You-Earn plans, which cap borrowers' monthly payments based on discretionary income. However, despite the existence of IBR plans since 2009, consumer awareness—and participation—in such plans is still limited. Only 19 percent of federal student loan borrowers enrolled in a repayment plan in the third quarter of 2015 were enrolled in an IBR, ICR or Pay-As-You-Earn plan, while 56 percent were enrolled in a standard repayment plan where monthly payments are amortized over a 10-year period (Federal Student Aid Data Center 2015). To encourage participation in an income-based plan and minimize the risk of default, a consortium of student-aid advocacy and research organizations has suggested reforming the current repayment system and introducing “auto-IBR,” which would automatically enroll all federal student loan borrowers in an income-based repayment plan upon leaving school; automatically deduct student loan payments through employer-based withholding; and implement accountability measures that hold schools accountable for graduating borrowers who are unable to repay their debt (New America, Young Invincibles, and the National Association of Student Financial Aid Administrators 2014).

This brief highlights the need for policymakers considering these and other options to factor in the implications of student loan payment burdens for outcomes beyond repayment and the avoidance of default. Specifically, it highlights the potential implications of student loan payment burdens for young households' homeownership and savings outcomes. With lower incomes, wealth and savings, young renters may face challenges with qualifying for a mortgage to purchase their first home or with setting aside sufficient cash savings for a downpayment on a home or for other purchases.

Key changes in the incidence and the growth of student loan debt over the past two decades also have broad implications for homeownership rates. The most notable—and worrisome—changes are that, compared to a decade ago, households without a degree now make up a much higher share of those in repayment with a substantial amount of debt. Furthermore in contrast to white households paying down similar debt loads, the most indebted minority households are much more likely to have student debt but without a degree. Households who take on debt without completion of a two- or four-year college degree are likely to face both diminished earnings potential and higher risk of default, further impacting their ability to access credit for a home or other purchases.

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*Any opinions expressed are those of the author and not those of the Joint Center for Housing Studies of Harvard University or of any of the persons or organizations providing support to the Joint Center for Housing Studies.*

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## Appendix Tables

Table 1: Profile of Households with Student Loan Debt: 2013

| Characteristic                | Owner Households |                 |                |                 | Renter Households |                 |                |                 | All Households |                 |                |                 |
|-------------------------------|------------------|-----------------|----------------|-----------------|-------------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|
|                               | Thousands        | Percent         | 2013 Dollars   |                 | Thousands         | Percent         | 2013 Dollars   |                 | Thousands      | Percent         | 2013 Dollars   |                 |
|                               | All Households   | Share With Debt | Median Balance | Average Balance | All Households    | Share With Debt | Median Balance | Average Balance | All Households | Share With Debt | Median Balance | Average Balance |
| <b>Age</b>                    |                  |                 |                |                 |                   |                 |                |                 |                |                 |                |                 |
| 20-39                         | 14,785           | 37              | 18,000         | 33,262          | 20,339            | 40              | 16,000         | 28,173          | 35,125         | 39              | 17,100         | 30,225          |
| 40-59                         | 32,583           | 18              | 17,000         | 30,315          | 14,380            | 20              | 12,800         | 24,237          | 46,963         | 19              | 15,000         | 28,300          |
| 60 and over                   | 32,424           | 4               | 17,000         | 24,126          | 7,637             | 5               | 28,000         | 32,514          | 40,061         | 5               | 20,000         | 25,975          |
| <b>Race/Ethnicity</b>         |                  |                 |                |                 |                   |                 |                |                 |                |                 |                |                 |
| White                         | 62,808           | 15              | 18,000         | 31,712          | 23,074            | 27              | 18,000         | 31,088          | 85,883         | 18              | 18,000         | 31,468          |
| Black                         | 7,873            | 26              | 15,000         | 24,248          | 10,032            | 37              | 13,000         | 23,223          | 17,905         | 32              | 15,000         | 23,584          |
| Hispanic                      | 5,730            | 12              | 15,000         | 26,341          | 7,311             | 17              | 11,400         | 18,959          | 13,042         | 15              | 13,000         | 21,561          |
| Other                         | 3,420            | 17              | 27,000         | 45,615          | 2,281             | 22              | 10,000         | 27,888          | 5,701          | 19              | 23,000         | 37,348          |
| <b>Income Quartile</b>        |                  |                 |                |                 |                   |                 |                |                 |                |                 |                |                 |
| Bottom                        | 11,930           | 7               | 12,300         | 20,025          | 18,699            | 23              | 12,500         | 24,439          | 30,629         | 17              | 12,300         | 23,719          |
| Lower Middle                  | 17,906           | 11              | 13,000         | 22,198          | 12,729            | 29              | 18,000         | 26,184          | 30,635         | 18              | 16,800         | 24,825          |
| Upper Middle                  | 22,381           | 20              | 18,800         | 30,822          | 8,249             | 33              | 18,000         | 28,220          | 30,630         | 24              | 18,800         | 29,852          |
| Top                           | 27,614           | 20              | 18,000         | 35,548          | 3,021             | 29              | 20,000         | 40,972          | 30,636         | 21              | 18,700         | 36,295          |
| <b>Education Category</b>     |                  |                 |                |                 |                   |                 |                |                 |                |                 |                |                 |
| Less than a Bachelor's degree | 49,815           | 13              | 13,800         | 21,741          | 33,334            | 22              | 11,500         | 19,063          | 83,149         | 17              | 12,300         | 20,292          |
| Bachelor's degree             | 17,482           | 22              | 19,000         | 30,728          | 6,247             | 44              | 20,000         | 33,664          | 23,729         | 27              | 19,000         | 31,961          |
| Graduate degree or higher     | 12,534           | 22              | 28,000         | 52,156          | 3,118             | 44              | 47,000         | 57,822          | 15,652         | 26              | 30,000         | 54,052          |
| <b>Amount of Debt</b>         |                  |                 |                |                 |                   |                 |                |                 |                |                 |                |                 |
| Under \$25,000                | 8,143            | 63              | 10,000         | 10,465          | 7,538             | 65              | 8,500          | 9,690           | 15,681         | 64              | 9,000          | 10,092          |
| \$25,000-\$49,999             | 2,294            | 18              | 33,000         | 33,911          | 2,188             | 19              | 33,000         | 34,666          | 4,483          | 18              | 33,000         | 34,280          |
| \$50,000 or higher            | 2,405            | 19              | 75,000         | 97,145          | 1,842             | 16              | 74,900         | 89,605          | 4,247          | 17              | 75,000         | 93,874          |
| All Households                | 79,831           | 16              | 17,500         | 30,884          | 42,699            | 27              | 15,000         | 27,141          | 122,530        | 20              | 17,000         | 29,110          |

Note: With the exception of the amount of debt category, the all households category includes households without student debt. Percent share calculations for debt amount category also exclude those without student loans. Median and average student loan balances exclude households without student loan debt. Tabulations of median and average student loan balances exclude those without student loans. White, black, and other households are non-Hispanic. Hispanic households may be of any race. Income quartiles are based on equal fourths of the households shown.

Source: JCHS tabulations of Federal Reserve Board, 2013 Survey of Consumer Finances

Table 2: Distribution of Student Debt Payment Burdens: 2013 (Thousands of Households)

| Characteristic                   | All Households Aged 20-39 |                  |              |            |               |             | Renter Households Aged 20-39 |                  |                    |            |               |             |
|----------------------------------|---------------------------|------------------|--------------|------------|---------------|-------------|------------------------------|------------------|--------------------|------------|---------------|-------------|
|                                  | Households With Debt      | Not In Repayment | In Repayment | Low Burden | Medium Burden | High Burden | Households with Debt         | Not In repayment | Total In Repayment | Low Burden | Medium Burden | High Burden |
| <b>Race/Ethnicity</b>            |                           |                  |              |            |               |             |                              |                  |                    |            |               |             |
| <b>White</b>                     | 8,406                     | 2,449            | 5,957        | 4,646      | 763           | 549         | 4,368                        | 1,817            | 2,551              | 1,693      | 408           | 450         |
| <b>Black</b>                     | 3,278                     | 1,562            | 1,716        | 1,273      | 151           | 292         | 2,517                        | 1,295            | 1,222              | 840        | 97            | 285         |
| <b>Hispanic</b>                  | 1,248                     | 415              | 832          | 699        | 56            | 78          | 908                          | 384              | 525                | 391        | 56            | 78          |
| <b>Other</b>                     | 647                       | 118              | 529          | 475        | 22            | 32          | 311                          | 118              | 193                | 140        | 22            | 32          |
| <b>Income Quartile</b>           |                           |                  |              |            |               |             |                              |                  |                    |            |               |             |
| <b>Bottom</b>                    | 3,671                     | 2,025            | 1,646        | 808        | 314           | 524         | 3,277                        | 1,888            | 1,389              | 645        | 267           | 477         |
| <b>Lower Middle</b>              | 3,483                     | 1,360            | 2,123        | 1,619      | 182           | 323         | 2,618                        | 1,065            | 1,554              | 1,098      | 133           | 323         |
| <b>Upper Middle</b>              | 3,843                     | 985              | 2,858        | 2,447      | 349           | 62          | 1,828                        | 576              | 1,253              | 1,049      | 158           | 45          |
| <b>Top</b>                       | 2,582                     | 175              | 2,407        | 2,219      | 148           | 40          | 381                          | 85               | 295                | 272        | 24            | 0           |
| <b>Education Category</b>        |                           |                  |              |            |               |             |                              |                  |                    |            |               |             |
| <b>Less than a Bachelor's</b>    | 11,782                    | 7,165            | 4,617        | 3,824      | 370           | 422         | 7,958                        | 5,346            | 2,612              | 1,941      | 284           | 387         |
| <b>Bachelor's degree</b>         | 6,392                     | 3,506            | 2,885        | 2,051      | 396           | 438         | 3,437                        | 2,065            | 1,372              | 799        | 176           | 397         |
| <b>Graduate degree or higher</b> | 3,094                     | 1,561            | 1,533        | 1,217      | 226           | 89          | 1,219                        | 711              | 507                | 324        | 123           | 61          |
| <b>Amount of Debt</b>            |                           |                  |              |            |               |             |                              |                  |                    |            |               |             |
| <b>Under \$25,000</b>            | 8,632                     | 2,652            | 5,980        | 5,164      | 403           | 413         | 5,262                        | 2,149            | 3,113              | 2,376      | 330           | 407         |
| <b>\$25,000-\$49,999</b>         | 2,378                     | 777              | 1,601        | 1,038      | 245           | 318         | 1,508                        | 630              | 878                | 442        | 160           | 277         |
| <b>\$50,000 or higher</b>        | 2,569                     | 1,116            | 1,453        | 891        | 344           | 219         | 1,333                        | 834              | 499                | 246        | 92            | 161         |
| <b>All households</b>            | 13,579                    | 4,544            | 9,035        | 7,093      | 992           | 950         | 8,104                        | 3,613            | 4,491              | 3,064      | 582           | 845         |

Note: Burden calculations exclude those with student loan debt who are not yet in repayment. Low burden is equivalent to those who devote less than 8 percent of monthly income to student loan payments; medium is equivalent to 8-14 percent of monthly income; and high is equivalent to more than 14 percent of monthly income. White, black, and other households are non-Hispanic. Hispanic households may be of any race. Income quartiles are based on equal fourths of the households shown.

Source: JCHS tabulations of Federal Reserve Board, 2013 Survey of Consumer Finances.

STUDENT LOAN DEBT AND THE HOUSING DECISIONS OF YOUNG HOUSEHOLDS

Table 3: Distribution of Student Loan Debt by Amount of Debt: 2001, 2013 (Thousands of Households)

| Characteristic                   | All Households |                   |                    |        |                |                   | Renter Households Aged 20-39 |        |                |                   |                    |       |       |       |       |       |
|----------------------------------|----------------|-------------------|--------------------|--------|----------------|-------------------|------------------------------|--------|----------------|-------------------|--------------------|-------|-------|-------|-------|-------|
|                                  | 2001           |                   |                    | 2013   |                |                   | 2001                         |        |                | 2013              |                    |       |       |       |       |       |
|                                  | Under \$25,000 | \$25,000-\$49,999 | \$50,000 or Higher | Total  | Under \$25,000 | \$25,000-\$49,999 | \$50,000 or Higher           | Total  | Under \$25,000 | \$25,000-\$49,999 | \$50,000 or Higher | Total |       |       |       |       |
| <b>Race/Ethnicity</b>            |                |                   |                    |        |                |                   |                              |        |                |                   |                    |       |       |       |       |       |
| <b>White</b>                     | 6,885          | 1,298             | 698                | 8,881  | 9,806          | 3,074             | 2,836                        | 15,715 | 2,477          | 555               | 189                | 3,221 | 2,688 | 863   | 816   | 4,368 |
| <b>Black</b>                     | 1,745          | 274               | 115                | 2,134  | 3,933          | 874               | 910                          | 5,717  | 658            | 100               | 29                 | 787   | 1,709 | 402   | 405   | 2,517 |
| <b>Hispanic</b>                  | 868            | 69                | 27                 | 963    | 1,372          | 233               | 295                          | 1,900  | 402            | 0                 | 0                  | 402   | 687   | 151   | 70    | 908   |
| <b>Other</b>                     | 178            | 98                | 38                 | 314    | 570            | 301               | 207                          | 1,078  | 79             | 21                | 0                  | 99    | 178   | 92    | 42    | 311   |
| <b>Income Quartile</b>           |                |                   |                    |        |                |                   |                              |        |                |                   |                    |       |       |       |       |       |
| <b>Bottom</b>                    | 1,770          | 227               | 91                 | 2,087  | 3,661          | 1,004             | 494                          | 5,160  | 1,115          | 131               | 26                 | 1,272 | 2,308 | 614   | 355   | 3,277 |
| <b>Lower Middle</b>              | 2,634          | 466               | 202                | 3,303  | 3,738          | 915               | 885                          | 5,538  | 1,337          | 290               | 83                 | 1,711 | 1,645 | 474   | 499   | 2,618 |
| <b>Upper Middle</b>              | 2,950          | 486               | 138                | 3,575  | 4,579          | 1,267             | 1,445                        | 7,291  | 857            | 201               | 21                 | 1,079 | 1,099 | 357   | 373   | 1,828 |
| <b>Top</b>                       | 2,321          | 560               | 445                | 3,327  | 3,703          | 1,296             | 1,423                        | 6,422  | 306            | 54                | 87                 | 448   | 211   | 63    | 107   | 381   |
| <b>Education Category</b>        |                |                   |                    |        |                |                   |                              |        |                |                   |                    |       |       |       |       |       |
| <b>No degree</b>                 | 5,482          | 528               | 43                 | 6,053  | 8,243          | 1,832             | 1,056                        | 11,131 | 2,197          | 234               | 8                  | 2,439 | 3,109 | 743   | 368   | 4,221 |
| <b>Associate's degree</b>        | 854            | 116               | 0                  | 970    | 1,868          | 449               | 322                          | 2,639  | 457            | 79                | 0                  | 536   | 516   | 176   | 70    | 762   |
| <b>Bachelor's degree</b>         | 2,482          | 624               | 204                | 3,309  | 3,879          | 1,271             | 1,367                        | 6,516  | 777            | 317               | 113                | 1,207 | 1,341 | 413   | 475   | 2,229 |
| <b>Graduate degree or higher</b> | 857            | 472               | 631                | 1,960  | 1,691          | 931               | 1,502                        | 4,124  | 184            | 47                | 96                 | 327   | 296   | 176   | 420   | 892   |
| <b>All Households</b>            | 9,675          | 1,739             | 877                | 12,292 | 15,681         | 4,483             | 4,247                        | 24,410 | 3,616          | 676               | 218                | 4,510 | 5,262 | 1,508 | 1,333 | 8,104 |

Note: Excludes households without student loan debt. White, black, and other households are non-Hispanic. Hispanic households may be of any race. Income quartiles are based on equal fourths of the households shown. Debt categories are based on 2013 dollars.  
 Source: JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances.