Student Debt vs. Homeownership

BY DAVID A. PRICE

"Echoes of Rising Tuition in Students' Borrowing, Educational Attainment, and Homeownership in Post-Recession America." Zachary Bleemer, Meta Brown, Donghoon Lee, Katherine Strair, and Wilbert van der Klaauw, Federal Reserve Bank of New York Staff Report No. 820, July 2017.

Student debt in the United States more than tripled between 2004 and 2016, increasing from $360 billion to $1.2 trillion. At the same time, homeownership rates of young Americans fell, with 31 percent of 30-year-olds owning a home in 2004 compared to 21 percent in 2016. In a recent paper, economists Donghoon Lee, Katherine Strair, and Wilbert van der Klaauw of the New York Fed, with collaborators at the University of California, Berkeley and Stony Brook University, studied whether there's a connection between these two "unprecedented" developments.

The researchers analyzed individual-level data on borrowing and homeownership from the New York Fed Consumer Credit Panel, a large dataset based on credit report data from Equifax. They noted that over the period of their study, while the average total debt of young Americans declined slightly, the composition of that debt shifted dramatically: For the average American at age 30, home mortgage debt, auto debt, and credit card debt were all down (by 28 percent, 6 percent, and 36 percent, respectively), while student loan debt was up 174 percent. Their regression model indicated that rising student debt can account for between 11 percent and 35 percent of the decline in homeownership.

The authors observed that their results were consistent with a number of national surveys in which large shares of young adults reported that student debt was an obstacle to their buying a home.

"Response of Consumer Debt to Income Shocks: The Case of Energy Booms and Busts." Jason P. Brown, Federal Reserve Bank of Kansas City Research Working Paper No. 17-05, May 2017.

Domestic production of oil and gas in the United States climbed around 40 percent from 2000 to 2015, and drilling of new wells almost tripled. With the surge in production came growth in employment and incomes in the affected regions. In addition, the changes in the market brought new or increased income streams from royalties on mineral rights. Unfortunately for the households involved, the boom was followed by a bust in prices and, in turn, by a drop-off in the drilling of new wells and by widespread layoffs in the industry. Jason Brown of the Kansas City Fed has examined how consumers in oil- and gas-producing areas changed their borrowing during the boom years.

Using data from the New York Fed Consumer Credit Panel, Brown determined that increased drilling of wells in a county was associated with large increases in consumer debt such as credit cards and auto loans — presumably reflecting that consumers with rising incomes expected their higher income streams to continue. At the margin, each additional well drilled was associated with a $6,750 increase in total consumer debt.

The effects varied depending on the extent of a county's previous drilling development, however. In rural counties with little previous drilling, the increase in debt was much higher: $23,000 per well in those counties versus $5,900 in the rural counties with a more active history of well drilling. Brown suggested that this pattern could reflect "irrational exuberance that good times will continue indefinitely" in the areas with less previous exposure to the ups and downs of the industry.

"Fintech Lending: Financial Inclusion, Risk Pricing, and Alternative Information." Julapa Jagtiani and Catharine Lemieux, Federal Reserve Bank of Philadelphia Working Paper No. 17-17, July 6, 2017.

So-called "fintech" lenders — online-only alternative lenders — often rely on mining nontraditional sources of credit information. Those sources may include social media accounts or sales information from companies such as Amazon or eBay. (See "Tomorrow's Lenders?" *Econ Focus*, Second Quarter 2016.) Julapa Jagtiani of the Philadelphia Fed and Catharine Lemieux of the Chicago Fed have asked how lenders and consumers are faring under the new loan underwriting methods.

Jagtiani and Lemieux looked at individual-level data from the fintech lender Lending Club and the New York Fed Consumer Credit Panel. In addition, to assess how the effects of nontraditional lending varied with conditions in the local banking market, they looked at data on market concentration and brick-and-mortar bank branches from the Federal Deposit Insurance Corp.

The researchers found that the additional information sources used by Lending Club appeared to allow some consumers with low FICO scores to "be slotted into 'better' loan grades" and thereby receive lower interest rates. They further concluded that the nontraditional underwriting functioned well in identifying default risk and pricing credit accordingly. Finally, they found Lending Club was able to charge higher prices for loans in the most concentrated markets, where it had "more monopolistic power." **EF**