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The Impact of Rising Student Loan Debt on Mortgage Borrowing

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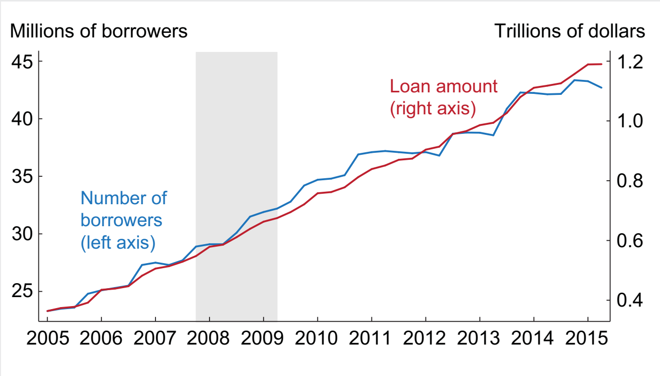
Over the past 10 years, student debt has been increasing, both in terms of the total amount of debt outstanding and the number of borrowers. From 2005 to 2015, outstanding student loan debt rose from $364 billion to $1.2 trillion, and the percentage of people aged 18 to 30 with a student loan increased from 27% to 40%. Even after total consumer debt started to decline during the Great Recession, student loan debt steadily increased at an average quarterly rate of 3.2%. The sharp rise in student loan debt has raised concerns that young people with a lot of student debt may be having trouble getting a mortgage or other types of loans. In this article, we look at whether the increase in student loan debt could be responsible for the decline in mortgage borrowing by people who are between the ages of 18 and 30.

As the percentage of people 18 to 30 with student debt increased from 2005 to 2015, the percentage of those with a mortgage declined. In 2005, prior to the recession, 11% of young people had a mortgage, but that number has since fallen to 7%. While the total number of mortgages has declined for most age groups, part of the drop in young people's mortgage borrowing may be due to an increase in the number of people with student loans.

Student Loan Market



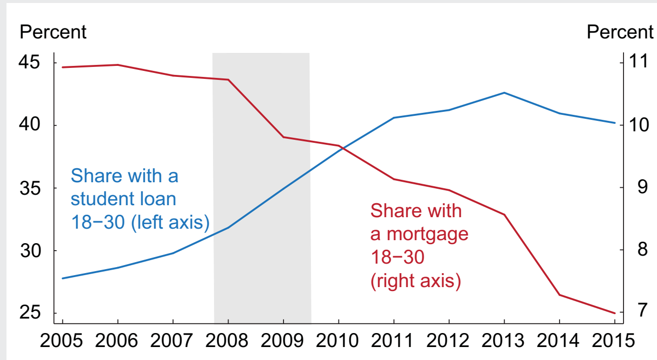
Notes: Shaded bar indicates a recession. Last data point: 2015:Q2.
Source: Federal Reserve Bank of New York's Consumer Credit Panel/Equifax, authors' calculations.

A major constraint for getting a loan can be how much debt a person already has. Lenders calculate the ratio of a borrower's debt payments to his or her income and consider this number, called the debt burden, when they decide whether a borrower can take on more debt. To calculate the debt burden imposed by student loans, we compare the average student-loan debt payment to the average income of someone who has at least some college education, which accounts for the fact that people with student loans have some higher education, and thus usually a higher income. Using this calculation, we see that student-loan payments as a share of income is currently over 20%. Having over 20% of one's income dedicated to student loan payments makes it more difficult to take on a mortgage, or other debt, which can comprise 30–45% of a person's income.

When the share of young borrowers with a student loan was relatively low, about 10% of young borrowers with a student loan had a mortgage, which was nearly identical to the percent of young borrowers without a student loan who had a mortgage. After the recession, the general trend was for young people to have fewer mortgages than before the recession, which was likely due to tighter lending standards and a down economy. However, there was a sharp decline in the percent of young borrowers with a student loan who had a mortgage in 2009, compared to the milder decline for those without a student loan. This sharp decline coincides with the increased share of young borrowers who have a student loan. A plausible explanation for this larger decline in mortgage borrowing could be that banks would no longer lend to these borrowers, or that young borrowers with a student loan could not afford a mortgage.

The percentage of young people with a mortgage varies by state. Prior to the recession in 2005, the percentages in each state were relatively similar for young people with and without student loans, with the exception of a couple of central states, where mortgage rates were higher for those without student loans. However, the most recent data indicate that there are now stark differences between borrowers with and without student loans. Along both coasts, the share of young people with a mortgage is much lower

Share of Young People with Student Loans or Mortgage



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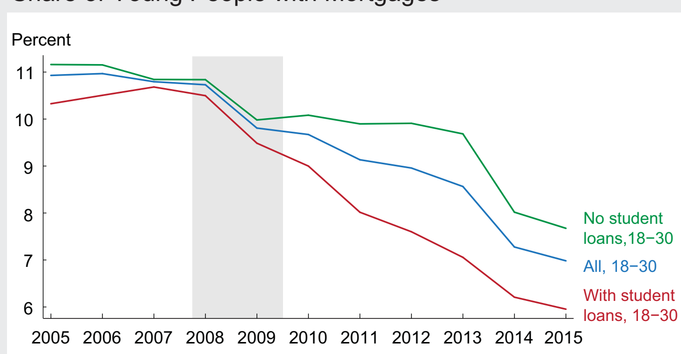
Share of Young People with Mortgages



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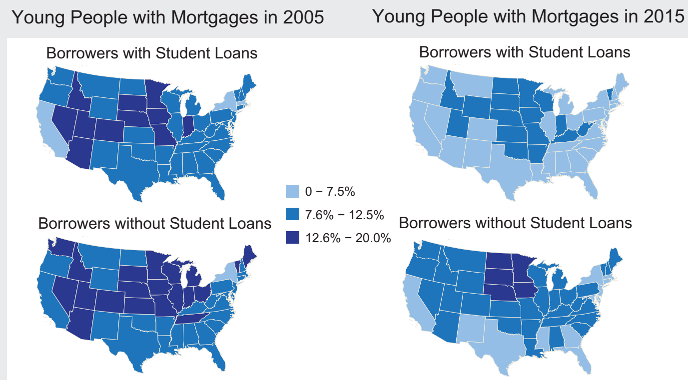
Source: Federal Reserve Bank of New York's Consumer Credit Panel/Equifax, authors' calculations.

for those with student loans than those without. Additionally, this relationship holds for parts of the central United States as well. When looking at these trends across time, it appears that almost all of the states have seen a general decline in the rate of mortgage borrowing from young people, but the decrease is consistently more pronounced for borrowers with a student loan.

While it's unlikely that student loans are the sole factor for the decline in mortgage borrowing across the United States, it is hard to ignore how the recent surge in student loan debt is changing the debt portfolio of young borrowers. With over 40% of young borrowers having a student loan, and debt payments comprising 20% of their income, it makes it more and more difficult for young people to take on a mortgage in the first few years after attending college. And as the number of student loans continues to rise, it is a trend that is likely to continue.



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