

How Is Student Loan Debt Associated with Homeownership and Home Equity?

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Homeownership in the United States has decreased from 47.5% in 2007 to 39.2% in 2015 among those in the 25 to 34 age group (U.S. Census, 2016). The rising student loan balances is one important factor that has contributed to the decreased rate of homeownership, especially among young adults, as having student loan debt adversely affects mortgage qualifications (Mezza, Ringo, Sherlund, & Sommer, 2017). In addition, higher interest rates on subprime student loans make it more difficult for college graduates to own a home and accumulate equity in it (Elliott & Nam, 2013).

Although these studies have analyzed the associations and effects of student loans on homeownership, very few have focused on their effect on both homeownership and equity for all age groups. This study filled this void in the literature by analyzing data from the 2016 Survey of Consumer Finances (SCF) to explore the way in which student loan debt is associated with homeownership and home equity.

The majority (69.8%) of respondents who did not have student loans had a higher percentage of homeownership than those who had such loans (62.9%). Respondents who did not have student loans accumulated more than twice as much home equity (\$250,685) as those who had such loans (\$103,192). After controlling for other factors, having student loan debt had a negative effect both on homeownership and the amount of accumulated home equity. Student loan payments reduced respondents' ability to buy a home and made it challenging for homeowners to build their home equity.

References

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