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Student Debt Reduces Homeownership and May Contribute to Rural 'Brain Drain'

A new report by researchers affiliated with the Federal Reserve finds that rising levels of student debt have reduced the share of Americans who own homes, especially among those ages 24 to 32.

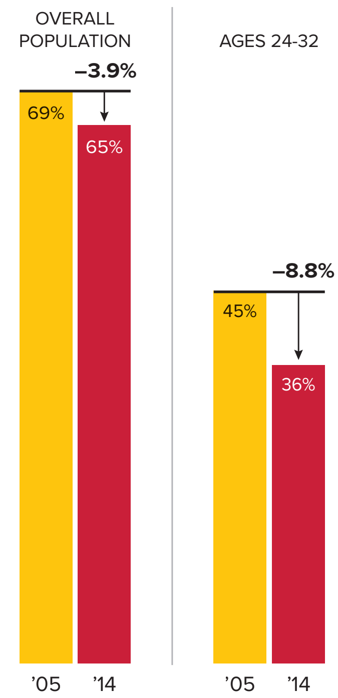
Between 2005 and 2014, the average student debt load in that age group increased from $5,000 per student to $10,000 per student, after adjusting for inflation. The study used statistical controls to isolate the effect of different debt levels on homeownership among young adults.

In a simulation that imagined keeping average student debts at their 2005 level, the researchers estimate that an additional 1.8 percent of young adults would have owned a home in 2014, which suggests that student debt accounted for one-fifth of the 8.8-point decline in homeownership in this age group since 2005.

The authors speculate that one major driver is the effect of student debt on credit scores — higher debt levels make default more likely, and borrowers who default on their student loans may find it more difficult to qualify for a mortgage. They conclude that some government policies, such as income-driven repayment models, could help borrowers avoid default.

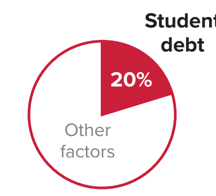
Other factors attributed to the decline include income changes, differences in mortgage lending conditions and rising home prices.

Homeownership rate, 2005 to 2014



CAUSES OF DECLINE AMONG THOSE AGES 24 TO 32

According to the Federal Reserve report, rising student debt is responsible for a 1.8 point decrease in homeownership since 2005 — one-fifth of the total decline over that period.



Rural students with larger debts tend to move to urban areas

A second study included in the report looked at the potential effects of student debt on "rural brain drain" — rural college graduates moving to larger cities and towns, which can have adverse economic effects on the rural communities they leave behind.

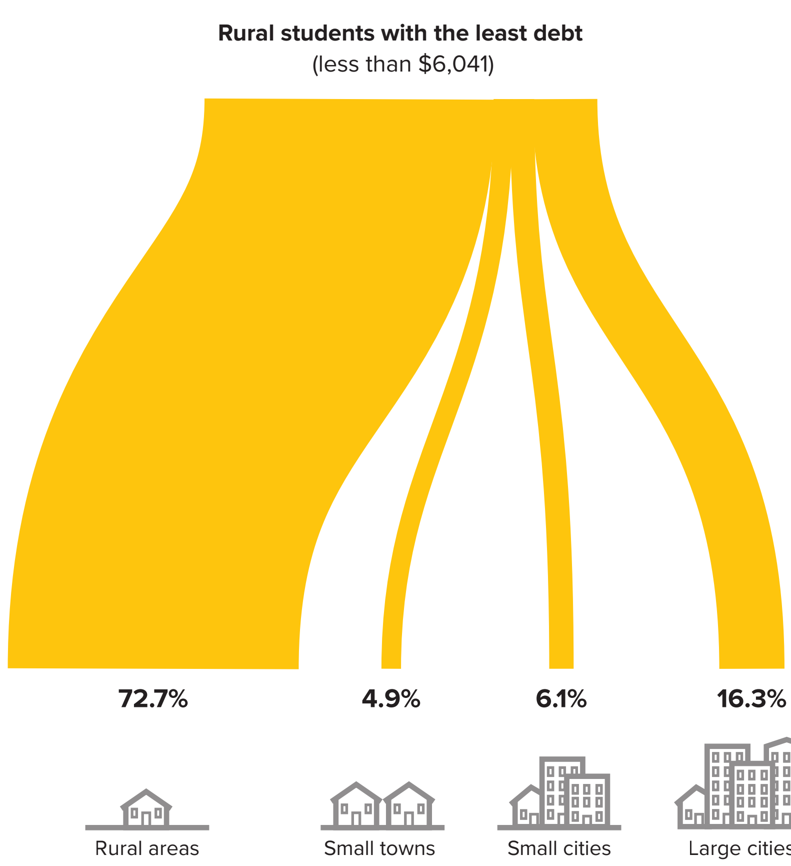
The study looked at the migration patterns of former students who had started to repay their loans. One year after beginning repayment, 48.3 percent of rural students in the highest debt quartile had moved to a large metropolitan area, compared with only 16.3 percent of rural students in the lowest debt quartile.

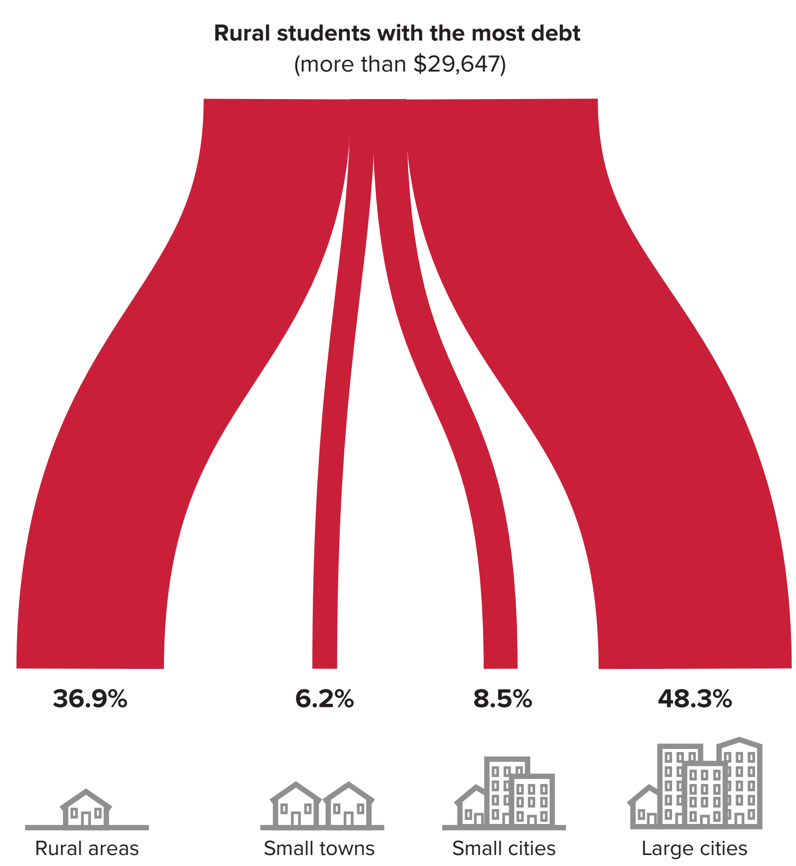
The authors speculate that rural borrowers with higher debts gravitate to larger metros to seek higher wages — and their evidence suggests that these movers are indeed more successful in repaying their debts compared with students who remain in rural areas.

However, they also cautioned that the study is not rigorous enough to strictly identify cause-and-effect, and that other factors could also partly explain these migratory patterns. For example, the study did not account for degree completion: Students who drop out of college may have smaller debt loads because they enrolled in fewer years of study, and it is possible that degree completion is a major factor driving students to seek jobs in larger cities.

Where rural student borrowers move one year after beginning debt repayment

According to data from Equifax and the Federal Reserve Bank of New York





Source: Federal Reserve Board, "Consumer and Community Context Vol. 1 No. 1"

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