Fed study gauges toll of student debt on millennial homeownership

Published **January 16 2019, 12:39pm EST**

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American homeownership has been on the decline, and Federal Reserve researchers point to the high cost of college as one culprit.

Just 36% of household heads between 24 and 32 years old owned homes in 2014, down from 45% in 2005. At the same time, average student debt per capita rose to an inflation-adjusted $10,000 from $5,000 in 2005.

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About 20% of the decline in homeownership among young adults can be attributed to that increase in student loan debt, the authors estimate, making such borrowing an important, but not central, driver of the decline. Some 400,000 more young people would've owned homes in 2014 if debt burdens hadn't risen.

Why does this happen? It's partly because higher student loans early in life leads to lower credit scores later in life, making it harder for former students to take out mortgages.

"This finding has implications well beyond homeownership, as credit scores impact consumers' access to and cost of nearly all kinds of credit, including auto loans and credit cards," Fed Board authors Alvaro Mezza, Daniel Ringo, and Kamila Sommer write. "As policy makers evaluate ways to aid student borrowers, they may wish to consider policies that reduce the cost of tuition."

The Fed released the paper as part of its "Consumer and Community Context" series of articles that analyze financial conditions in under-served and economically vulnerable households and neighborhoods.

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