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THE UPSHOT

# TheUpshot

EDITED BY DAVID LEONHARDT

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## STARTING OUT BEHIND

# The Role of Student Debt in Stunting the Recovery

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Is student loan debt holding back the economy? There's some new evidence that the answer may indeed be a big "yes."

In the past, it was easy to ignore the role that student borrowing might play in the overall economy. A decade ago, there was only about \$300 billion in such loans outstanding, and even now the \$1.1 trillion in student loan debt is dwarfed by mortgage debt. But people who borrow money to pay for their education can't simply walk away without paying, unlike with mortgages, car loans or credit cards; there is no equivalent of foreclosure, and student loan debts aren't cleared by bankruptcy.

That may all be great from a lender's point of view. But there's a growing body of evidence that rising levels of student loan debt are restraining the ability of young adults to enter the "grown-up" economy — to buy a car and to buy a home and start filling it with big stuff.

While the overall level of student debt may not measure up to that of mortgages — \$8.2 trillion — it is highly concentrated among a small slice of people — those in their 20s and 30s — who are the engines of a great deal of economic activity. One of the [crucial reasons the housing market](#) has not expanded enough to support robust economic growth is that young adults are not setting up their own households at anywhere near the historical norm.

## Fewer Young Adults Are Taking Out Mortgages

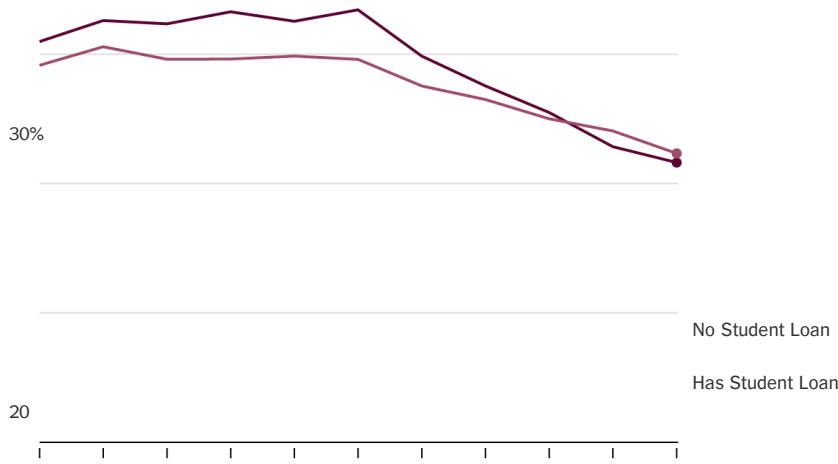
Since the financial crisis, fewer young adults have been borrowing money to buy a home, and the decline has been steepest among those who also have student debt.

**Proportion of 27- to 30-year-olds with a home mortgage**

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Federal Reserve Bank of New York

Might higher student loan debt burdens be an important reason? After all, a person with monthly student loan payments of \$300 — about what you would expect for the average new loan balance of \$29,400 at government-subsidized interest rates — is going to be more inclined to bunk with roommates or Mom and Dad.

One more solid piece of evidence for this theory is contained in the latest [report on household debt](#) issued by the New York Fed, and an [accompanying post](#) on its Liberty Street Economics blog.

In the not-too-distant past — until just before the 2008 financial crisis, to be precise — around 30 percent of 27- to 30-year-olds had debt issued backed by a home. Even more interesting, 33 percent of

But since then, the proportion of 27- to 30-year-olds with mortgages has plummeted to around 22 percent, according to the New York Fed data, which is also consistent with the trends in homeownership identified by the Census Bureau and other data sources.

Here's what's most interesting, though. The proportion of adults in that age bracket who have a mortgage has fallen most sharply among those who have student loans as well. Unlike in the past, when they tended to be more likely to have mortgages (perhaps because of better credit, or more inclination to take out loans), they now have mortgages at a lower rate than those with no student debt.

A similar story holds with auto loans. In 2008, 37.6 percent of 25-year-olds with student loan also had an auto loan, but by last year that had fallen to 31.4 percent.

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There is some good news in the [New York Fed report](#); young adults had somewhat better credit risk scores in 2013 than in 2012.











And there could be more to the weak housing market than just student debt overhang. The researchers, Meta Brown, Sydnee Caldwell and Sarah Sutherland, also mention the possibilities of limited access to credit and a possible shift in young adults' preferences away from home buying.

But the evidence certainly fits an explanation of higher student debt levels as a significant factor standing in the way of a stronger recovery.

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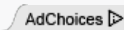
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