THE PENNSYLVANIA STATE UNIVERSITY
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WHAT IS THE EFFECT OF STUDENT DEBT ON MORTGAGES?

HEAVEN-LEIGHA SOSIEWICZ LEGGIO
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Reviewed and approved* by the following:

Orie Barron
Professor of Accounting
Thesis Supervisor

Orie Barron
Professor of Accounting
Honors Adviser

Sajay Samuel
Professor of Accounting
Faculty Reader

* Signatures are on file in the Schreyer Honors College.

ABSTRACT

This thesis will discuss the overall impact of student loan debt on mortgages in the United States. Student debt and the cost of college in the United States have been rapidly rising through the past four decades. This change can affect different areas of the economy. This thesis will focus on the relationship behind student loan debt and the housing industry. It will take into account the impact of the Great Recession on the housing industry to exclude those results.

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Chapter 1

Introduction

There is a student who attends a four-year university to obtain a bachelor of science in Accounting and a minor in Information Sciences and Technology. This student has worked all four years of her undergraduate studies to help pay for the cost of her college education and everyday living expenses. Sometimes she was working two jobs at a time while being a full-time student, taking at a minimum of 18-credits a semester and maintaining an almost perfect GPA. This student has gotten no governmental financial aid assistance and a very minimal amount in scholarships over all four years. Often times she worries about her future after college, of paying back the seemingly insurmountable amount in loans and being able to live a successful life. I forgot to mention, that student is someone close to me.

I am not the only one who struggles from trying to attend college to better my future. Tracy Lozano went to cosmetology school because she wanted to create a better life for herself and her daughter. At the time, she was living with her mother in Iowa, attending beauty school during the day and working a minimum wage job at night. She took out $21,000 by the time she finished school and when she went to get a full-time job, Tracy found out she needed to continue working her part-time night job because her full-time cosmetology job did not help her cover the monthly cost of her student loan bills (Kolodner and Butrymowicz). Tracy was still living with her mother and relied on food stamps and health insurance from the state, and 13 years after graduating she still owes more than $8,000 (Kolodner and Butrymowicz).

We are all taught from a young age that we should go to college and get a degree, but we are never told about the possible consequences that can arise from it or the overall impact it could have on the economy. More and more people are attending college and taking out student loans just because we are told to. By now, is it thought “normal” for everyone to go into tens-of-thousands of dollars into debt to obtain a degree to “better our lives and be more well-off in the future”. So, what are the consequences that could arise and what information do we need to be aware of?

The increasing amount of college attendees along with other factors has caused student debt to become a major crisis in the United States over the last several years. The total value of educational debt has reached roughly $1.3 trillion and is carried by about 40 million Americans (Price). Take, for instance, Penn State, where we are ranked third in the highest tuition for an in-state school during the 2014-2015 academic year. During this academic year, 59% of undergraduate students at Penn State held loans and almost 8% of those students defaulted (Fowler). In 2014, the national average student loan debt was $28,000 and the average debt for a Penn State graduate was $36,955 (Fowler). More people today are required to take out student loans because the cost of college has become unaffordable for their families, and median household incomes have remained unchanged.

Out of the seven million undergraduate students that rely on student loans to attend college, certain students are prone to carrying more debt than others. In 2003-2004, 17% of first-time students defaulted within 12 years. The rate of defaulting is strongly influenced by a person’s race and college status. African American are the most likely to default their loans within a 12-year period. 44% of dropout African Americans were unable to make payments on their loans compared to 22% of dropout Hispanics and only 17% of dropout white Americans

"Students at Greatest Risk of Loan Default"). African Americans that drop out are more than twice as likely to default on their student loans compared to white Americans. For African Americans that complete their degree, 30% will default after a 12-year period while 20% of Hispanics will with only 7% of white Americans unable to pay their loans ("Students at Greatest Risk of Loan Default").

There are negative impacts on the economy from student loan debt and defaulting on those loans. Debts and defaults in particular, negatively affect a borrower's credit score. Which restricts what a borrower can borrow and therefore his/her ability to contribute to the economy. High student debt amounts negatively affect the economy in numerous ways. Spending is going to be stifled because many debtholders (like myself) will put off spending money on consumer items like makeup and assets like cars or dishwashers. The startup of new businesses will be hindered because these people do not have enough money to begin their own businesses. Student debt also has the potential to slow the housing and mortgage market. If fewer people are buying homes, banks and investment firms will be directly impacted by the decreased flow of revenue. Other negative impacts include delay of marriage and child birth rates, and how and when people will retire.

There have been more public discussions lately about the impact of student debt on the economy. A news article by NBC News argued that the real college crisis is how student debt is dragging down the economy. The commentator noted how student debt levels considerably affect homeownership. Between 2005 and 2014, home ownership fell 9 percentage points (Chinni and Bronston). Illustratively, one can compare millennials to Generation X and Baby Boomers. Generation X and Baby Boomers hold a large portion of their debt in mortgages. 32% and 25% respectively, but the biggest source of debt for millennials is student loans at 21%

(Chinni and Bronston). For them, mortgages are only 11% of total personal debt. This restriction of opportunity is causing millennials to have less negatives feelings towards socialism than Baby Boomers, Millennials worry that in spite of their education they will not achieve the American dream. (Chinni and Bronston) Even the Wall Street Journal has noticed how student debt has hurt the United States housing market. It was pointed out that roughly 400,000 borrowers could not own a home in 2014 due to their student debt loans. There are two reasons for this. The first is that many people fall behind on payments for their loans and in turn this lowers their credit score, making them ineligible for a home mortgage. The second reason is that others who keep up with their payments and have good credit scores are unable to save money for a down payment on a home because a large portion of their monthly income goes towards paying their student loan debt (Mitchell and Kusisto).

With so many people being concerned about student debt and with the use of social media and the Internet to spread this information, the issue of student debt is often brought up by Democrats and Republicans when running for office. Student debt and possible solutions to it has become an integral part of many political campaigns. Democrats, such as Hillary Clinton in the 2016 election, want to offer tuition-free attendance to in-state institutions for families with income lower than an unspecified amount and to decrease the interest rates at which new borrowers get loans and refinance existing loans (Herrera). Republicans feel less government is better, and that more private sectors should be responsible for loan distribution than the government. Donald Trump, the Republican candidate for the 2016 election, believes that the government should not make any money from student loans, yet they do (Herrera).

Student loan debt is going to change the decisions of people to buy a home, either by postponing it or not purchasing one at all. The goal of this paper is to provide the reader with an

understanding of student debt and its effect on housing mortgages. There are two main sections to this paper. The first is to give a deeper understanding of student loan debt and its consequences, both for the mortgage market and the general economy. The second will provide details on home mortgages, analyzing the trends and reviewing both sides of the argument on whether student loan debt has a direct impact on them.

Chapter 2

Understanding Student Loan Debt

An Overview on Student Debt

The cost of college has been rapidly rising in the past couple decades. In 1987, the tuition for a private nonprofit four-year institution was $15,160, while in 2017 the tuition price was $34,740 ("Tuition and Fees and Room and Board over Time."). This is an increase of $19,580 over the last 30 years. While this may not seem like a lot, college costs have doubled since the 1970's ("Tuition and Fees and Room and Board over Time."). The cost of college is the same for all disciplines, even though not everyone will obtain the same salary after graduation and securing a full-time job. This makes it difficult for some college graduates to pay off their debt or to make major purchases, such as vehicles or homes. Student debt was also the only debt that increased during the Great Recession and which cannot be discharged by bankruptcy.

T. Price indicated that student debt has risen to a total of $1.3 trillion, which is up 350% since 2005, and nearly 7 million students have defaulted on their loans. Many students will drop out of college in order to start paying off their high student loans because they can no longer afford it, and for others it takes longer than four years to complete their degree. This is leading to those students having to take out more loans and acquire even more debt. Graduating students from the class of 2015 had on average $35,000 in student loans (Price).

Let's take an example using myself and my mother. I will graduate Penn State with a four-year degree and pay in-state tuition. I took out private loans through Sallie Mae totaling

roughly $67,000. Over an estimated 12-year payback period, I will pay approximately $112,000 in total payments. I also have received subsidized and unsubsidized federal student loans all four years totaling almost $28,000 in a principal balance. Using a given 4.39% average interest rate and an average payback period of 10 years, I will pay roughly $40,000 in total payments for the federal loans. In the 1990s, my mother attended an in-state Pennsylvania university for five and a half years accumulating roughly $57,600 in student loans. It took her 10 years to pay off with a similar interest rate to my federal loans. Calculating her estimated total paid in student loans comes to $71,269. This creates a difference of about $80,000 in a 20-year difference from when my mother attended college to when I am attending college.

It has been found that students with the smallest amount of student debt are more likely to default than those who have larger amounts. Borrowing is highest for graduate students who account for 40 percent of new student loans (Dynarski). Since they tend to earn more than undergraduate students, graduate students have an easier time paying off their student loans. It is estimated that of the seven percent of graduate student who borrow default compared to the 22 percent rate for those who only borrow for undergraduate studies (Dynarski). Many borrowers have small debts, 43 percent have less than $10,000 and 72 percent have less than $25,000 in student loan debt (Dynarski). Those that fall within the category of having less than $10,000 in debt, their odds of default are 34 percent, while the smallest group holding the largest amount of debt at more than $100,000 default at a rate of 18 percent. These default rates can be explained by the increase in for-profit and community college attendees that estimated a 75 percent increase in default between 2004 and 2011 from those borrowers (Dynarski). The reason is that borrowers who attend for-profit colleges or universities end up graduating late or dropping out,

and earn lower salaries when compared to graduates from non-profit public or private universities.

What exactly has led to the transformation of higher education over the last few decades? In the 1980s, college graduation rates kept rising for those in the upper classes, but for those in the lower classes a four-year degree was not as easily attainable. This results from a political failure because our government has ceased to help regarding effective lawmaking towards higher education policies and maintain them. The rising costs of unmonitored tuition costs have bred inequality in a place that is supposed to help make those more equal and better their lives. For those in the richest fifth of America, their percent of family income attributed to the cost of college has increased from six percent in 1971 to nine percent in 2011, and if you happen to be in the poorest fifth then your percentage raised from 42 percent to 114 over the same years (Mettler).

The Federal government has failed at properly maintaining and updating policies related to student loans. First, federal student aid has become less effective in promoting opportunity since the enactment of Pell Grants. In the 1970s when it was first enacted, Pell Grants covered almost 80 percent of a low-income person's tuition, and as of 2014 they merely cover 30 percent (Mettler). The Federal government has shifted its focus from student debt to the growing costs of Medicaid, K-12 education, and prisons. Spending for full-time students fell nearly 26 percent from 1990-2010, and now both colleges and students are having to squeeze money from every source possible in order to help cover the costs the government is failing to (Mettler). Congress has also loosened its regulations regarding a college's ability to thrive from the government's pocket. For-profit colleges have been using at least a quarter of the federal student aid dollars allocated to Title IV of the Higher Education Act of 1965 and these account for almost half of all

student loan defaulters (Mettler). This displays an unequal share of federal student aid dollars in comparison to the number of defaulters from a given type of college.

Demographics on Student Debt and Defaulting

The demographics on college campuses is rapidly changing. People of all races, genders, various ages and ethnicities are coming together with one common interest: to get a college degree to have a better future. But not everyone has the same burden of debt compared to others. Women and minorities tend to carry more debt then men, and if you are a college dropout you unfortunately have the most debt and are at the greatest risk for default in student loans.

Women compose 56% of college campuses (AAUW National). So why is it that we carry more debt than men? Women take about on average two years longer to repay student loans than men do and struggle more economically because they are paid less than men for the same work. This means women put off buying homes and cars and saving for retirement more than men do. Women who are minorities experience greater difficulties than white women. The combination of women accumulating more debt than men and taking longer to repay it means that women hold almost two-thirds of the outstanding student loan debt which equals roughly $890 billion (AAUW National). The chart below displays the percentage of college graduates experiencing financial difficulties broken down by race, gender and repayment status (AAUW National).

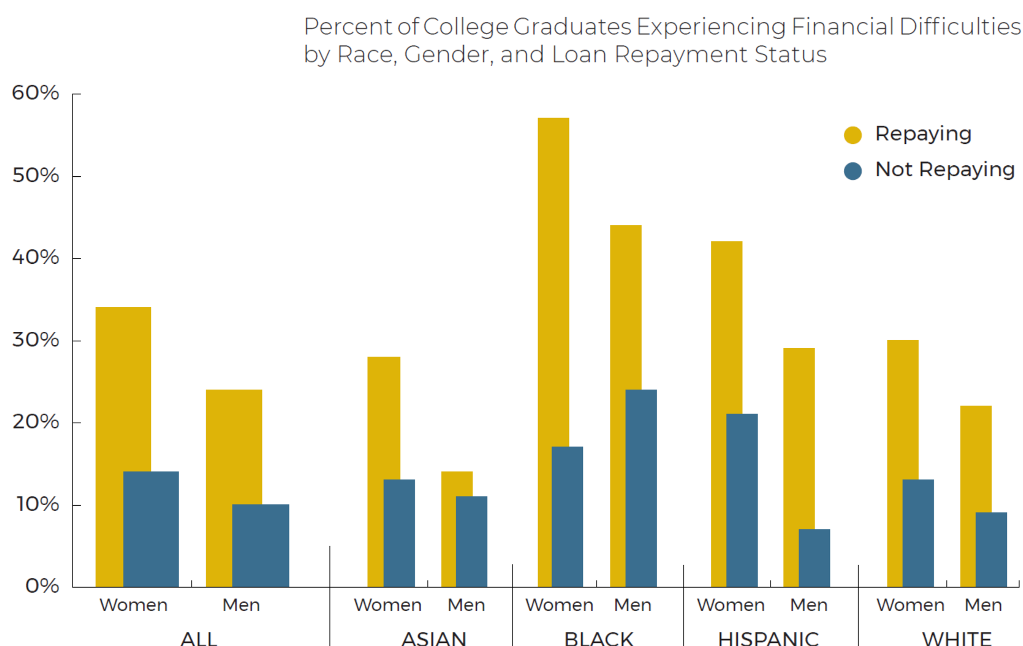

Figure 1 College Graduates who have Financial Difficulties, 2018

As you can tell from the graphic above, overall women are more susceptible to experiencing financial difficulties no matter what their loan repayment status is compared to men. 60% of Black women repaying their student loans have the highest percentage for experiencing financial difficulties, compared to only 10% of Hispanic men who experience financial difficulties when not repaying.

Did you know that what type of school you went to matter for predicting if you would drop out or not? Students who attend certain universities are more prone to defaulting on their loans compared to others. Students that attend for-profit colleges are more likely to end up defaulting than their counterparts who attend public colleges and nonprofits. 48 percent of students who attended a for-profit college during 2003-2004 defaulted within twelve years – four times the rate of public colleges and three times more than nonprofit colleges ("Students at Greatest Risk of Loan Default").

There are other factors that determine whether a person is likely to default. Students who receive Pell Grants and first-generation students are also more likely to end up in default compared to those who do not receive Pell Grants and those who come from families that previously attended college. It helps if you complete your college degree, but that definitely does not make you immune to defaulting on your student loans. These students are less than half as likely to default within 12 years if they complete their degree compared to if they drop out (11% vs. 23%) ("Students at Greatest Risk of Loan Default").

Overall, minorities, women, dropouts, first-generation students and Pell Grant recipients are most likely to default on their student loans and carry a huge burden for outstanding student loan debt. For these demographical groups of people, being able to contribute to society through consumer purchases, homeownership and buying cars becomes difficult. Understanding who defaults and why is important. These borrowers end up in financial difficulties from this situation. Defaulters could impact the future generation college students as well. The pain and struggles that arise in local communities, or seeing friends and family losing much-needed tax refunds from paying student debt could discourage them from attending college in the future (B. Miller).

The Various Economic and Other Consequences

There is a growing list of impacts on the economy and people resulting from the insurmountable amount of outstanding student debt. When someone thinks about the economic consequences of college degrees, they would expect that the economy is flourishing from the amount of highly educated persons entering into the workforce. Yes, that is not necessarily the

case today. Now, the economy is riddled with economic deficiencies such as multigenerational debt, slower growth rates, restricted access to higher education and a decline in marriage and childbirth rates. People are also highly affected by this on an individual level because their mental health and idea of the "American Dream" gets distorted from the pressure of everyday life.

Many parents, and even grandparents, needed to take on debt for their (grand)children to have the ability to attend college. Debt spread out among family members from old to young is known as multigenerational debt. In the years leading up to 2015, the number of adults over age 60 who took on student debt quadrupled (Harker). From that amount, roughly three-quarters of those adults assumed the debt on behalf of their (grand)child (Harker). This puts a damper on the economy because people who are approaching, or already in, their retirement will not be contributing to the economy as much as they should. This is due to them not spending money on their "golden years", a time after years of work to spend money frivolously and travel, instead of paying for this debt.

High debt also affects areas of the economy that are particularly crucial to growth. Research conducted within the Federal Reserve System showed how student debt is also attributed to the formation of small businesses and homeownership rates (Harker). Marriage and childbirth rates dwindle as many debt-bearers feel as though they cannot properly afford to start a family, which is the driver to the economy. If we do not have future working generations then essentially, we do not have an economy.

With homeownership comes home improvements. If the high debt is hindering the growth economy, then many business's that market to home improvements will be directly affected. If people are not buying homes, they are either renting or living with their parents.

These people will not want to make any home improvements on a home that is not theirs. Therefore, businesses such as Lowe's and Home Depot that market to DIY home projects likely experience weak sales growth which could threaten long term success.

Living in America today, it is said that everyone has equal access to higher education, but is that really the case? Research from various sources shows that different majors earn different wages. This fact can alter whether someone goes to college or not because of the difficulties they will have paying their loans back (Harker). If a student majoring in accounting will have more of a financial benefit from getting a college degree compared to a student majoring in art, then equal accessibility to higher education is compromised. Why should an art student subsidize an accounting student by paying the same for a college education?

Factors other then economical related are being affected from high student debt as well. Mental health is one of the most talked about topics in college aged students. A study conducted by Healthy Minds Study, an annual survey conducted every year on college campuses, found that 44 percent of students were flourishing in their college career, while 39 percent reported feeling symptoms of depression or anxiety (Burwell). Students experiencing suicidal thoughts has grown five percent from 2007-2017, and the amount of students receiving psychotherapy has risen 11 percent in the same time frame (Burwell). So why is there an increase of depression and anxiety on college campuses? It is simple and falls within three categories – safety, economics, and technology. The main one in focus for this discussion will be economics. A lot of students are first-generation and their families do not have the background to finance a college education, which creates an unsettling feeling as they do not know how to handle college debt (Burwell). Students worry about the type of economy they are graduating into and fear that they will end up jobless and unable to pay back their student loans. Even though unemployment is low, salaries

for careers have dropping during the Great Recession (Burwell). They also worry that they will not do any better than their parents, especially since the likelihood that a child will earn more than their parents has decreased from 90 percent to just 50 percent (Burwell).

From the combination of the stress of the economy and bearing the most student debt in history and the increasing mental health issues, it is no surprise that the beloved “American Dream” that our parents petitioned for is now more like a “Leave American Dream”. It used to be that America was the top leader in college education. Now with more government spending being transferred to the military to compete with Russia, we have fallen out of the running. “Russia now has the largest percentage of adults with a with a university education of any industrialized country – a position once held by the United States” (Kristof). Part of the American dream is access to education, but since American is no longer the leader in higher education, many people question America’s ability to provide the basis of the American dream. Personally, if I found out that I could have access to a better college education somewhere else without all the stress and other economic factors that are coupled with it in America, I would go.

Chapter 3

Mortgages Information

Homeownership

In the past, mortgages were the bulk of a person's monthly debt expenditures. Today however, that is being replaced by student loan debt. The increasing cost of college has shifted the majority of a person's debt away from mortgages, which is a driving force in our economic spending. There has been a significant decrease in the number of mortgages being taken out over the last several years, and the Great Recession did not have much to do with it.

According to a survey done by the NeighborWorks American Survey, the financial pressures mixed with a nationwide marriage rate decline have contributed to the slow housing market. There is also a steady rise in home prices that are outpacing income growth which can lead to increasing difficulties to accumulate the money needed for a down payment on a home ("NeighborWorks America Survey: Student Debt, Mortgage Market Confusion, and a Declining Marriage Rate Stalling Housing Market").

There has been a decrease in homeownership and mortgage acceptance rates among recent graduates. Rose notes that there has been a steep decline in homeownership among the under-35 age group, especially for those who have student debt. In the 25-35 age group, homeownership has dropped 8% from 2004 to 2013, which is also the same time that student debt increased by over 300% (Price).

In “Student Debt a Mounting Burden for Graduates and Economy”, the most notable effect of student debt on the economy is in the housing market. In a survey conducted, it was found that 30% knew someone who delayed buying a home because of their student debt. For survey respondents who said they were in the market for buying a home, 53% mentioned their student debt was “somewhat or very much” an obstacle for purchasing a home (Hall). I personally know someone in their 30s who has delayed buying a home and works multiple jobs, but his student debt outweighs his ability to qualify for a mortgage. I also have another friend who recently graduated college and cannot afford to rent and lives at home.

The graph below, taken from the “Global Housing Cycles”, shows evidence that the housing market was actually more affordable after the housing market crash of 2008 than it was in the early 1990s. This could be explained because of the housing burst in the 1990s to give it such a high benchmark (Igan and Loungani). So, if the housing market has actually become more affordable after the Great Recession’s cause of the housing market crash, why are there so little mortgages now than before the Great Recession?

Figure 12. Housing Affordability in the U.S.: Now and Then

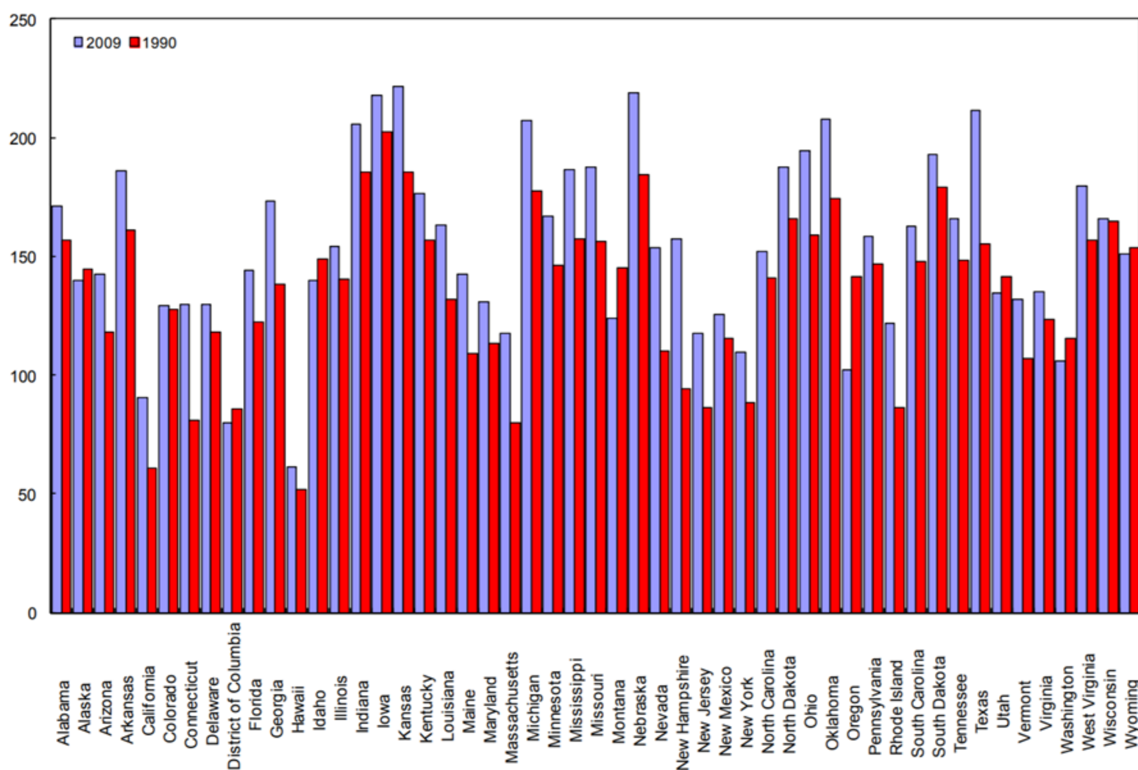

Figure 2. Housing Affordability by State, 1990-2009

What exactly is the effect of student loan debt on homeownership? Roughly 20 percent of the decline in homeownership among young adults is linked to the increase in student loan debt since 2005 (“Consumer & Community Context”). Student loans means more payments, and these monthly payments are making it harder for someone to qualify for a mortgage or put a down payment on a home. For every $1,000 that a person’s student loan bill increases it causes a one to two percentage point drop in the rate for homeownership among student loan holders between their mid-20s and late 30s (“Consumer & Community Context”).

The Great Recession

In order to fully understand the relationship between student loan debt and mortgages, the implications of the Great Recession need to be taken into account. The Great Recession occurred from 2007-2009 and was the largest recession since World War II. It took a toll on all aspects of the economy including the housing market, unemployment, consumer spending and median household income. The only area that was not affected was college and the student loan market.

During this time, people were still attending college and student loan debt was accumulating despite the Great Recession happening. After the recession, the amount of young people with student debt had greatly increased with respect to also having a mortgage (Demyanyk and Kolliner). In the chart below, one can see that the Great Recession did not impact those attending colleges, and that the relationship between student loans and mortgages is an inverse relationship. There was a sharp decline within the amount of 18 to 30 years old that were taking out mortgages. Over a 10-year period, persons with a student loan increased 13 percentage points while those with mortgages only dropped four percentage points. However, during the time of the Great Recession, those with student loans increased seven percentage points and those with mortgages only decreased one percentage point. This indicates that the Great Recession did not have a direct affect on the relationship between student loans and mortgages.

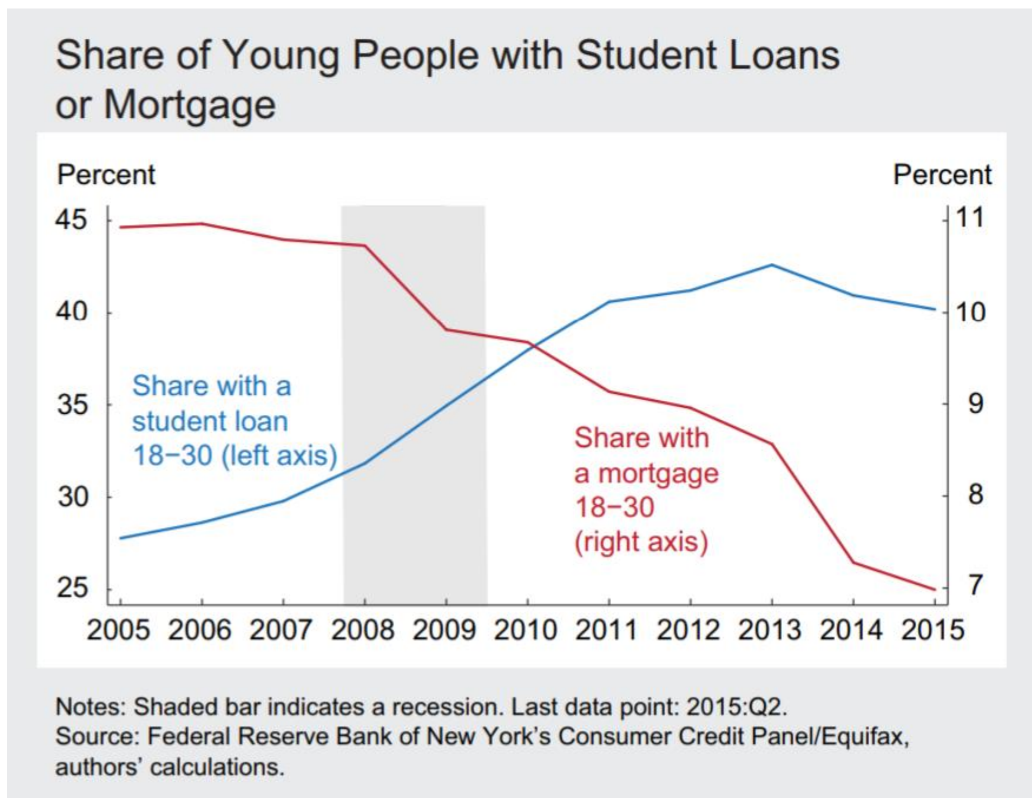

Figure 3. Number of Young People with a Student Loan or Mortgage, 2005-2015

The amount of young people, ages 18-30, with and without student debt, who have a mortgage has significantly dropped since 2005. From 2005 to 2015, those with student debt and a mortgage dropped four percentage points overall while those without student loans and had a mortgage only dropped 3 percent. While this is only a one percent different over a 10-year period, in 2015 those with and without student loans had a two-percentage point gap between each other. So not only do those with student debt pay a higher interest rate when obtaining a mortgage, they also have a more difficult time taking one out.

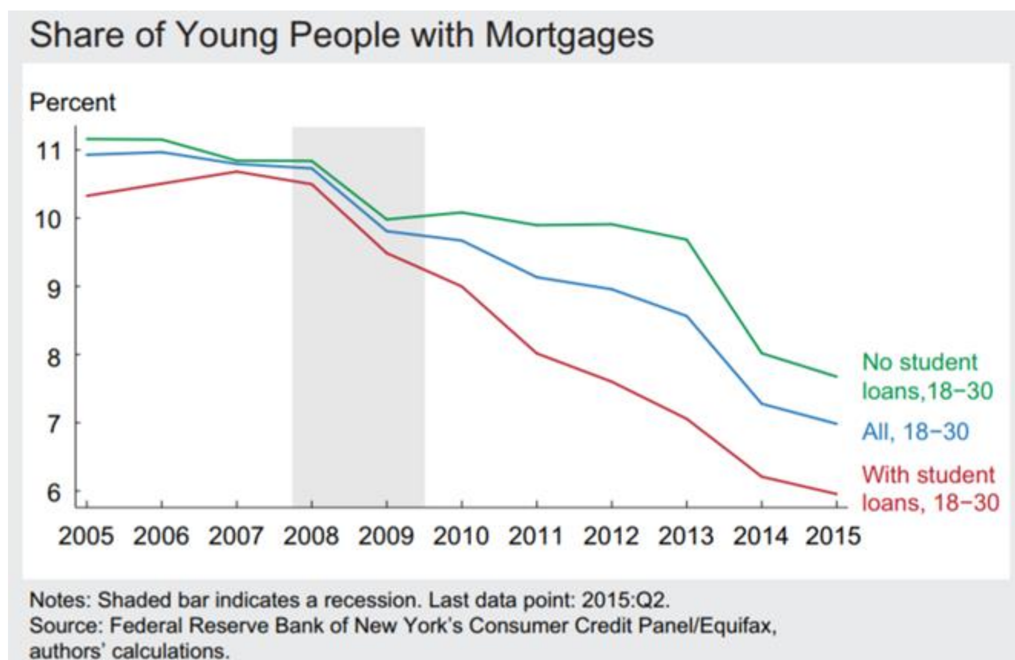

Figure 4. Young People with Mortgage Debt by Student Loans, 2005-2015

A writer for the New York Times recounts his memories about going to college during the Great Recession. Miller attended New York University, and at a time when it should be one of his happiest moments graduating from a university, instead he is riddled with memories about his family refinancing their home in the midst of the Great Recession. Both of his parents had lost their jobs and yet he was still attending college, accumulating debt from one of the most expensive private university's in America. This "made the recession's effects linger" for his family (M. H. Miller).

Valuation Ratios and Ineligibility for Mortgages

Valuation ratio help to determine whether someone will qualify for a home mortgage. The top valuation ratios that are looked at to determine the affordability of houses in the typical market and whether or not a typical family could qualify for a mortgage loan are the price-to-

income ratio and the housing affordability index. A typical market consists of the median home value for a certain state, and a typical family is one making the median income in a state (Igan and Loungani). These valuation ratios, along with other important information will be used by banks and realty companies in determining a person's housing affordability.

A price-to-income ratio (PIR) assesses the housing market for the relationship between income and housing prices and analyzes long-term trends for the relationship (Igan and Loungani). If housing prices exceeds income more than what has been historically observed, this can be interpreted as an overvaluation of the housing market, which would not be correlated to student loans and/or student debt.

After the PIR is determined, a housing affordability index (HAI) can be calculated. This "measures whether or not a typical family could qualify for a traditional mortgage loan on a typical home" (Igan and Loungani). The HAI calculates whether a family earning the median income could qualify for a mortgage based on the typical price, with a down payment of 20%. After the consideration of the monthly housing cost and the down payment, the monthly payments cannot exceed 25% of the typical family's monthly household.

Student debt can make an individual ineligible for a home mortgage. The Federal Housing Administration (FHA) mortgage loan applies to those who have a debt-to-income ratio of .43. Since student debt accounts for most of a graduate's monthly expenses, the average person has an estimated debt-to-income ratio of .49. This makes them ineligible for FHA loans, Qualified Mortgages (ratio must be less than or equal to .43), and many private loans (Letkiewicz and Heckman).

Opposing Viewpoints

Do student loans really have an impact on the mortgage market? Many people debate whether student debt actually has an effect on the housing market. For those that do, they normally explain their theory as to why the debt has a direct effect on the housing market and the economy as a whole and propose ideas as to what America needs to do lower the student debt rates. For those that do not agree with the statement that student loans have an effect as to whether someone purchases a home or not, they will not normally divulge any deeper into the implications of the largest debt category.

Alix writes an article giving his position about how student debt does not affect the mortgage market. He discusses how more millennials are qualifying for mortgages despite what many of his counterparts feel. Fannie Mae has revised the formula used by banks to calculate the debt-to-income ratio for the qualification of a home mortgage (Alix). There is some concern about the revisions made to the debt-to-income formula because “the changes may result in more applicants qualifying for mortgage loans, but it does not reduce their overall debt burden” (Alix).

The *Chicago Tribune* offers many speculations as to why millennials with student debt are having no troubles qualifying for mortgages. Those between the ages of 18 and 29 who were making regular payments on their loans were “‘generally’ able to obtain mortgages and stay current on the payments” (“Study: Student Debt Doesn't Hurt Mortgage Odds”). A senior vice president of a Chicago-based home lender says he also agrees that worries for potential borrowers with student loan debt are blown out of proportion (“Study: Student Debt Doesn't Hurt Mortgage Odds”).

The *Wall Street Journal* published an article about new research suggests that young people without a degree face bigger challenges for home buying than those with student debt do. In a study of 31,000 respondents, it was found that college graduates with no debt take a little longer than five years to save for a 20% down payment on a starter home, while students with debt take about twice as long, and those with no degrees take on average 15.5 years to save the down payment amount (Kusisto). “A National Association of Realtors survey of recent home buyers found that debt of all types adds three years to the time it takes millennials to buy homes” (Kusisto), therefore, it delays young people from buying a home, but ultimately it does not prevent them from doing so. In another study done by Zillow, they found that those with no loans and a college degree have a 70% chance of owning a home in their early 30s, people with student loans and a college degree have a 68% chance, and those with student loans and no degree have only a 40% chance (Kusisto).

Susan Dynarski, a University of Michigan professor of economics, believes that college graduates not being able to buy a home is a myth. Dynarski mentions that the real drag on the housing market come from those who do not go to college compared with those who do. People fresh out of college are less likely to buy a home in their 20s and once people reach their 30s they are more likely to buy a home, and this compares to similar trends in the past, even if they have student debt (MarksJarvis). She notes that most students are free of debt by their 30s because student loans are typically paid off within 10 years or so, and that our real issue should not be focusing on whether there is student debt, but rather getting more people to attend college because it pays off tremendously (MarksJarvis).

Chapter 4

Assessment of the Literature

After a close analysis of the student loan crisis and the mortgage industry over the last few years, it is evident that student loan debt does have a significant impact on the housing and mortgage industry. This can be seen through the direct correlation of loans increasing and mortgages decreasing. Taking into account the results of the Great Depression does not have any material impact on this conclusion.

When taking a look at the trends of student loan debt over the last few years it is clear that there has been an increase, but why? Well, now more kids are wanting the pa-zaz of attending a college that offers them all sorts of activities such as concerts, unlimited gyms, food courts, and tons of other things to partake in to pass the time and do anything but school work. This is one factor that has led to an increase in tuition. What also has an impact is the fact that lawmakers are choosing to not keep up funds with the changing environment of higher education. They do not seem to understand how to properly account for the raising price of tuition, higher education funding, and a person's changing wages.

I think that understanding all of the factors that go into a college tuition price would help lessen some of America's overall debt. This would, in turn, not only help the mortgage industry, but other areas of the economy as well including consumer spending and marriage and birth rates. Hopefully this would also help reduce America's trillions of dollars in debt from other sectors and raise our general wealth.

The mortgage industry has been decreasing as student loans increase. This is no coincidence. Student loans are now taking over the portion of monthly income that was allocated to mortgages. Many people are unable to purchase homes because they are attending colleges that offer little to no financial aid or scholarships to help reduce some of the tuition cost. They are not qualifying for loans using valuation ratios because their student loan debt outweighs their monthly income. For some people their student loan debt payments are actually higher than their monthly income, which is completely absurd. How is anyone supposed to purchase a home when they can barely afford food or health insurance?

From people I have talked to recently, I constantly find the same answers. They are unable to buy a home because they simply do not have enough money in their monthly spending to have the funds for a mortgage. These people range from recent college graduates to 30-year-olds in debt, to parents of children in their late 20s to early 30s who are still struggling to manage their monthly student loan debt payments.

The Great Depression did not alter my conclusion that student loan debt has altered the mortgage industry. From an analysis of the effects of the Great Depression, it is evident that it did have an impact on the economy, as it did for many areas of the economy, but it does not hold true for today. The low mortgage rates today are due to the student loan increase. We are not currently in a recession, although many economists believe we are heading towards one, so what else could these low mortgages be attributed to?

There are other factors of course, including our generation pushing off marriage and having children and spending more money on traveling. These factors do not outweigh the overall burden of the long-term student loan debt. For instance, I am taking a cruise to Bermuda in May. This cruise costs me roughly $2,000. This is a one-time cost and I am not occurring

more monthly payments each month in order to pay for this cruise. For me personally, it is easier to only save up this $2,000 over almost a year than having to save for a down payment, which comes with an obligatory monthly cost of a mortgage. I would love to be able to purchase a small starter home right out of college don't get me wrong, but the added monthly costs over the entire mortgage duration would not be possible for me, as well as for the others I have spoken too. For many people today, it is easier to make a small one-time purchase, for example to go on a trip, then it would be to make a long-term monthly commitment.

Chapter 5

Methods to Reduce Student Loan Debt

Reducing student loan debt is essential for the healthy functioning of our economy. If we do not figure out how to help those struggling to pay off these loans then America's total debt will continue to rise and hinder our growth and competition with other countries. Although there have been recent changes within the government to alleviate the burden of student debt, there are possible ways that could be implemented to help reduce future student debt, which will hopefully in turn raise homeownership. The proposed ways include the application process and increasing education. Other ideas to keep in mind are free college, tax benefits, student loans, and increase in funding.

Beginning in the 1960's, the federal government would give generous subsidies to private banks who turned them into student loans (Carey). This turned in the 1990s when a new loans option allowed students to borrow directly from the United States Department of Education. Income based repayment options were available to those who took out loans directly through the Department of Education and were limited to 20 percent of the borrower's income and any balance after 25 years was forgiven (Carey). In 2007, Congress made provisions to the federal college financial aid system. It shifted its focus from private banks that offered student loans to Pell Grants for lower income families, and modified the income-based repayment idea. The new terms were more generous than the ones previously established in the 1990s. It changed the percentage to 15 instead of 20 percent of the borrower's monthly income, and while the loan forgiveness stayed the same at 25 years, all loans would be forgiven after 10 years for those

working in a public services job (Carey). In 2010, those provisions were updated again with the passing of the new legislation named the Affordable Care Act. Now borrowers only had to contribute 10 percent of their monthly income and the forgiveness threshold was lower to 20 years. By applying the income-based repayment plan, it makes the saying “those who earn more pay more” a reality. They will end up paying the full amount of their loan plus whatever interest accrues before the 20-year forgiveness period, and nobody will default because they cannot simply afford to pay.

The first possible way to help alleviate student loan debt is to simplify the aid application process to better target aid and prevent fraud. This can be done by calculating eligibility using tax/W-2 information for estimates on student aid. Students do not know exactly how much student aid they will get until they have already accepted into a college. Therefore, they will not know if they actually are able to afford the tuition or not. We could also improve the federal needs analysis formula to prevent fraud and have the U.S. Department of Education flag those who have a history of fraud (“Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success”).

The second way is to provide students and families with the key information they need before deciding which college to attend. Families do not have all of the information they need before their children apply and accept a college. It is important they receive key information on student debt, private loan borrowing and repayment, and graduation rates for the prospective colleges (“Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success”). Students need to know their chances of graduating within 4 years in case they will have to take out more in student loans.

Along with providing students and families with the information needed for school loans and debt, it is also important to increase homebuyer education. This is important because “consumers have trouble estimating the accurate costs associated with homeownership and general home maintenance” and “lack adequate information on the consequences of foreclosure” ("NeighborWorks America Survey: Student Debt, Mortgage Market Confusion, and a Declining Marriage Rate Stalling Housing Market."). If consumers at all ages have this information available to them when making major financial decisions, they will be more capable of making reversible decisions pertaining to their future goals.

Another method is by improving the Pell Grants. Pell Grants are a major factor affecting whether many low-income students attend college, and which college they attend. An increase in investment to raise maximum Pell Grant would help cover a larger part of the cost of attending, but it would still be a smaller amount than it was in the 1970s (“Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success”). We could make Pell Grants a mandatory program instead of a discretionary program that is based on annual projections from Congress. This would help diffuse the tension as to whether the program will be overfunded or underfunded in that year.

Student loan borrowing is common across the world and America could take a play out of our competitors’ playbook and observe what foreign countries are doing with their student loan debt. Take Sweden for instance, tuition is free and yet most students borrow. This money does not go towards tuition though, it goes for paying their living expenses since college students are considered independent adults “with no societal expectation that their parents will support them financially” (Dynarski). There is no student debt crisis in Sweden because the payments are spread out over 25 years and not 10 years like America (in Germany they are over 20 years, and

in England its 30 years), and they have a generous welfare system and low-income inequality. In Australia their repayment systems vary greatly from America's. In America, payments do not vary over time and often borrows pay the same price from the time they get out of college to the time of their last repayment. On the other hand, student loan payments are automatically withheld from a person's monthly paycheck. This prioritizes basic needs such as food and living over repaying their loans – remember Tracy Lozano – and they would not have as many people using government assistance. Australia's idea is that no one facing a hardship should have to choose between paying their student loans and basic living necessities. When someone's earnings drop, the loan repayment amount drops immediately. There is no need for filling out paperwork or making several phone calls or waiting months to hear if you have qualified for a low monthly repayment as in America. In the United States, it is not unusual that we borrow large amounts, this is comparable to other countries, but what is unusual is how America does not know how to manage these funds and have turned manageable debt into a financial disaster (Dynarski).

More accountability needs to be placed on loan companies. The Consumer Financial Protection Bureau has documented thousands of cases where loan companies have misdirected, lost paperwork and charged the wrong interest rates on loans. Just last year tens of thousands of people may get their debts wiped clean because the loan companies were unable to keep track of the paperwork. This amount totals $5 billion of total outstanding student loan debt, and judges have already dismissed cases essentially wiping out all of the person's debt because the documents proving who owned the loans were missing (Cowley and Silver-Greenberg).

Chapter 6

Conclusion

My mother was in financial debt as well. She attended a small university and commuted from home, so she did not have the added costs of living on campus and having to pay for meal plans, but she did have a child. She ended up securing her job before she graduated and worked all throughout college to help pay for tuition and her life having a small child. My mother went for a degree in accounting, as I am now, and she has a good job and position. Why is it that she was unable to get proper help and assistance for attending college and having a child?

Tuition rates have increased exponentially over the last 10 years. This is due to a number of factors. Many college-goers today want the experience of attending a university that offers them many activities outside of the classroom. This increases the cost of tuition because now everyone is having to pay a general “fee” for concerts and different venue experiences. Lawmakers are not keeping up with the ever-changing world and the fact that policies need to be updated and kept current. Most of the laws have not been touched in years or had a major rehaul looking at the economy today.

There are a lot of factors that go into higher education and the government’s funding of it, but if it is forcing some from having to choose between purchasing a home to live in and other basic necessities and paying for a college tuition then the system is in a serious need for a revamp. America was known as the land of dreams and the fact that this dream is being ripped away from so many people because we cannot get it together and figure out the issue of student debt is not okay.

It is no surprise that the mortgage industry is facing a crisis now as well. The rates for people qualifying for mortgages are decreasing rapidly, even though the housing bubble burst almost 10 years ago. By now this should have been resolved and the mortgage rates should not keep declining. Obviously, there are also other factors that comes into play with this, but increasing student loans can be directly linked to this. If you were to compare the slopes of student loan debt mortgages, one would see an inverse relationship. The Great Recession did not fundamentally change. The inverse relationship between student loan debt and mortgages still applies today even though we are not in a recession.

There have been many debates within the news and by government officials as to whether student loan debt truly affects the mortgage industry. It is now evident that they do. There are proposed solutions to this crisis. If the government would implement some of these then there we could see a real change in this issue instead of just wondering whether or not any of them would work and what we could do to alleviate this issue.

Valuation ratios are used in determining whether a person can qualify for a mortgage. Since most people's monthly incomes are consumed by their student loans, they have no extra money in their budget for a monthly mortgage. It would not make sense to alter the valuation ratios because this is assuming more debt to a person. This would not be wise because then people are truly unable to afford their bills. Only changing the valuation ratios simply would not help this crisis. Something needs to be addressed both within the government and within colleges to figure this problem out.

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ACADEMIC VITA

Heaven Sosiewicz Leggio

hxs5307@psu.edu | 570-228-1170

LOCAL ADDRESS:
501 Vairo Blvd, Apt 1023
University Park, PA 16803

PERMANENT ADDRESS:
121 Roberts Lane
Milford, PA 18337

Education

The Pennsylvania State University, Smeal College of Business — University Park, PA
Bachelor of Science in Accounting — Date of Graduation: May 2019
Minor in Information Sciences and Technology

Work Experience

Outback Steakhouse — State College, PA
Hostess, Server, Takeaway, Headwait, Bartender, Certified Trainer — August 2017 – Present

- Train new hosts/hostesses/servers on policies and procedures
- Manage in-person requests and telephone inquiries, customer service requests, and bookings
- Meet the needs of my tables/customers, and help co-workers with their tables/customers
- Develop rapport with customers
- Solve customer problems and provide products
- Complete the nightly deposit and manage tips
- Ensure all nightly paperwork is complete and all credit card sales are accounted for

Northwest Bank — State College, PA
Teller — May 2018 – July 2018

- Perform daily financial transactions
- Insured compliances were met for every transaction
- Balance cash drawer and vault
- Finding discrepancies with teller work, checks, and account information

Kroger: Turkey Hill Mini Mart — Milford, PA
Cashier — October 2015 – August 2017

- Accepted payments in the form of cash, credit and debit; giving change when necessary; issued money orders
- Processed returns and exchanges
- Managed stock; checked in and received incoming store orders
- Cashed out lottery money vouchers
- Developed a rapport with customers

Leadership Experience

Pennsylvania Free Enterprise Week — Summer 2013
Participant

- Worked in a simulated management team where the group developed a product and marketed it
- Simulated actual operations of a three-year period for a large-scale company
- Presented our operations and statements to a judge panel

Related Skills

Proficient in Microsoft Office (Word, PowerPoint, Access); Intermediate in Microsoft Excel
Basic in MySQL and Java programming
Created End of Year Financial Statements for a Lemonade Stand Project
Created a Business Plan for a start-up Coffee Shop Project

Honors

Penn State Berks Honors Student
Schreyer Honors College Student
Corporate Control and Analysis Program
Ernst & Young LLP Scholarship Recipient
Penn State Campus Scholarship Recipient
Dean's List
Schreyer Honors College Scholarship Recipient