DOES STUDENT LOAN DEBT AFFECT BORROWING BY YOUNG HOUSEHOLDS?

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Abstract

This study takes on the issue of young adults’ retreat from the housing and auto markets from a novel perspective. Instead of trying to establish a correlation and causality between homeownership and student loan debt of young households, which has been the common approach in the literature, this study will attempt to reveal the connection between student loan debt and young households’ access to credit markets. Two important questions will be investigated in this research. The first question is: “Are young households with existing student loan debt more likely to be turned down in credit applications than similar households with no student loan debt?” The second question is: “Are young households with existing student loan debt more likely to be discouraged to apply for credit than households with no student loan debt?” Answers to these two questions will shed light on the possible reasons why young households with student loan debt might be retreating from auto and housing markets. Student loan debt doesn’t seem to have any discouraging effect on young households without a college degree, neither does it seem to increase their probability to be turned down in a loan application. In fact, student loan debt reduces the probability to be turned down for households with no college degree. On the other hand, households with a college degree are negatively affected by their student loan debt in comparison to other college graduate households without any student loan debt, although this appears to be an economically insignificant effect.

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