THE AMERICAN DREAM REVISITED

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HOMEOWNERSHIP AND COLLEGE EDUCATION HAVE LONG BEEN AT THE CORE OF THE AMERICAN DREAM. BUT ARE THE TWO TOGETHER SUSTAINABLE IN A CLIMATE OF MOUNTING DEBT FROM STUDENT LOANS?

Michael Lux, an attorney in Indianapolis, struggled for years to buy a house while still immersed in student debt. At the time, he was a deputy prosecutor with the city, meaning his employment was stable, but he said, "my salary was fairly low relative to my student debt from law school."

"I reached out to traditional banks, credit unions, and mortgage brokers in order to find a lender that would approve my home loan," he explained. "Lenders will not consider any income-driven student repayment plan, such as Pay as You Earn (PAYE) or Income-Based Repayment (IBR), when calculating your ability to pay on your home loan.

"Despite the fact I was a very minimal credit risk, my applications were consistently denied because of this underwriting standard," Lux added.

The Millennial generation attorney became so frustrated with his own situation that he founded the blog "The Student Loan Sherpa" to try and help others navigate the hurdles of repaying student loans and addressing those loans' impact on credit worthiness.

Lux said that while new underwriting standards have certainly streamlined the mortgage loan application process, they have also made it harder for non-traditional borrowers, not exclusively student debt holders, to qualify for loans. "The standards do not accurately reflect an individual's ability to pay," he said.

Matthew Proctor, who holds a degree from Harvard Law School, and his wife, a graduate of both Barnard and New York University, have had a similar experience. The couple recently married and reside in San Francisco. "My wife and I have basically given up on the idea of home ownership thanks to the student loan 'mortgage' on us," said Proctor.

"We both have high-paying jobs in one of the hottest job markets in the country, but we won't be able to buy a house for at least 10 years," he added.

THE STUDENT DEBT HOME-BUYING HURDLE

Today the average student debt resulting from a four-year degree stands at $30,000. According to "Life Delayed: The Impact of Student Debt on the Daily Lives of Young Americans," a report released by American Student Assistance (ASA) in 2015, 71% of non-homeowners surveyed who carry student debt, say the burden of monthly payments has kept them from purchasing a home. More than half of those say their student debt loads will likely prevent home ownership for another five years.

Meanwhile, 80% of those same survey respondents indicated student debt was preventing them from saving sufficient cash for a down payment.

The National Association of Realtors co-sponsored the report, and NAR's Chief Economist Lawrence Yun said that when one takes into account the monthly cost of housing, an automobile, and student loan payments, it can become very difficult for graduates to save, even for those earning over $50,000 per year.

The report also indicates that almost one-third of

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would-be home sellers are delaying putting their houses on the market due to student debt, often because they cannot afford the costs to move and upgrade.

Alle Lanza-Cosgrove, a spokeswoman for the ASA, said, "When you think of the average student loan debt being around $30,000, that translates into an average payment of $300 to $400 per month. That can eat up a big chunk of income for someone just starting out."

While these figures would seem to shadow housing industry recovery for years to come, there's more to the story, according to Mark Huelsman, senior policy analyst at Demos, a New York-based think tank focusing on issues of inequality.

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"It's important to note that the era of mass student debt is relatively new," Huelsman said, pointing out that within the last decade, borrowing for college has become the norm for most students, whether they're attending a private college, public university, or community or technical college. Add to that reality the fact that "many people who came of age with student debt also came of age during the greatest recession of recent memory," and one quickly sees the issue is far more complex than student debt alone and also represents new territory for the housing economy.

"Student debt will result in a monthly payment that the previous generation didn't have," Huelsman remarked, "and it could prevent savings, potentially for down payments or even retirement." Student debt can also impact borrowers' backend debt-to-income ratios, reducing their ability to qualify for a mortgage or qualify for one with reasonable interest rates and terms. Things are even worse for would-be borrowers who have fallen behind on student loan payments and have damaged credit scores as a result.

Huelsman said it's important to keep in mind that reduced rates of home buying, particularly among Millennials, have many factors at play. Even students who have debt and could nevertheless qualify for a mortgage may be deciding to hold off on home ownership until their current set of debt is paid off. Not to mention the fact, he added, that Millennials "are facing financial pressures much more acute than those faced by Baby Boomers or Generation X."

He points out that wages for college graduates haven't been increasing much over time. "We've known this about the working class for a long time," Huelsman said, "but the same is also true for the college-educated."

COLLEGE: TO GO OR NOT TO GO?

Does all of this mean one should think twice before heading off to college, particularly if doing so requires assuming a significant amount of student debt?

Not exactly.

Huelsman said that while college degrees aren't paying off the way they once did, "the risk of not going to college has become even riskier. He added, "Those without a degree have seen incomes decline precipitously over the past few decades. It's not that the top line is getting bigger; it's flat really, but the bottom line has bottomed out."

2016 research from both the Brookings Institution and the Federal Reserve Board of Governors supports this outlook. In a report from last May, Brookings researcher Susan Dynarski indicates that while more Americans without college education in their early 20s own homes than early 20-somethings with a college education, that difference is not the result so much of student debt as of the former group having been in the workforce longer.

"The college-educated catch up fast," she wrote, "and have higher rates of homeownership by age 27. By age 35, the gap in homeownership between those with and without a college education is about 14 percentage points." And while Dynarski acknowledged that college graduates who didn't take on debt for school buy homes faster than those who did, she said, "by the time people are in their 30s, when the typical borrower would have finished paying off her student loans, the homeownership rates of the two college-educated groups are statistically indistinguishable."

Add to that the fact that men with a B.A. earn $35,000 more per year than those without (it's $25,000 more for women), and the risks for assuming student debt in exchange for a college education seem pretty clear.

Lanza-Cosgrove thinks so anyway: "I think overall college is still a good investment and still the best path forward for economic mobility. It does still work out for most people."

However, this latest generation of adults is facing expense loads previous generations never had—child care costs are increasing dramatically, healthcare costs now represent one of the largest monthly expenses in most households, and Millennials are, as Huelsman said, "on the hook for their own retirement. The era of the defined benefit pension plan is over."

THE ADDED STRUGGLE FOR COLLEGE ATTENDEES WHO DON'T GRADUATE

That may account for why the Millennials who are buying are buying smaller, older, and cheaper, according to research from NAR. They're also making smaller down payments and often seeking financial assistance from family or friends. Some are also benefiting from an increasing array of government programs that provide some student debt forgiveness in exchange for buying a home.

For example, the Maryland Mortgage Program offers discounted mortgage rates and up to $5,000 in down payment assistance for grads who purchase homes in "sustainable communities" near Baltimore and Washington, D.C. Ohio offers "Grants for Grads" to first-time homebuyers who earned associate's, bachelor's, or any type of postgraduate degree in the last four years. Among the potential benefits are down payment assistance and more favorable mortgage interest rates.

Huelsman doesn't see a lot of difference between student debt relief programs designed to encourage college graduates to buy a house and those designed to get graduates to live in a certain area or follow a certain profession. "Because student debt is effectively universal, you're seeing a lot of debt-relief programs targeted at borrowers that maybe want to work in some sector like in public service or government or programs to get borrowers to engage in a certain economic activity," he said.

"I would prefer, however, we just lower student debt," he adds, noting that he'd like to see programs that target people who are most likely to struggle to repay their student debts. That includes those who took on student debt but didn't obtain a degree.

"I think about this a lot in racial equity terms," Huelsman explains, pointing out that returns for college for African-American students tend to be lower than for white students. "They tend to take on more debt and take on more debt without graduating," he notes. "They also have higher unemployment rates."

A July 2015 report from The Pew Charitable Trusts, "The Complex Story of American Debt," found that more than 50 percent of surveyed African-Americans and Hispanic-Americans (both Gen Xers and Millennials) who assumed student debt to pay for college said if they could do it over again, they would find a way to pay for school that did not involve taking on debt...or at least taking on quite so much of it.

"The biggest indicator of someone having a problem with student debt is if they drop out before completing their degree," Lanza-Cosgrove explained. "Higher education faces this challenge right now of getting people through and getting people complete."

Regrettably, she notes, that for a long time, the focus was on getting people into college without much attention to what would happen once they got there. "We've seen access in and of itself is not enough," she said. "We need to make sure people persist and graduate."

Minority and lower-income populations are more likely to drop out of college for a wide array of reasons, though they are usually financial in nature. Lanza-Cosgrove says students may need to leave college and join the workforce to help support their families, for example. Combine that with the greater hit minority families took during the recession, and the racial component of debt's impact becomes readily visible.

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