

# Study links student loans with lower net worth, housing values after college

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Student loan debt may negatively impact young people's ability to accumulate wealth after they graduate or drop out of college, a new study suggests.

People who had outstanding balances on their student loans when they graduated or dropped out of college had lower [net worth](#), fewer financial and nonfinancial assets, and homes with lower market values when they reached age 30, according to a paper accepted for publication in the journal *Children and Youth Services Review*.

"After controlling for various student characteristics and parental income, we found that having [student loan](#) debt when [people](#) graduated or dropped out of college compromised their ability to accumulate wealth afterward," said principal investigator Min Zhan, a professor of social work at the University of Illinois.

For black young adults, leaving college burdened with student loans may be especially detrimental, diminishing their net worth by 40 percent compared with white students, the researchers found.

The findings underscore the importance of accessing alternative sources of funding besides education loans and other forms of credit to pay for college expenses, said Zhan, who co-wrote the paper with William Elliott III, director of the Center on Assets, Education and Inclusion at the University of Kansas; and Xiaoling Xiang, a recent graduate of the doctoral program in social work at Illinois.

The researchers examined the impact of education loans on four markers of wealth accumulation: total net worth, which was calculated by subtracting each person's total liabilities from their total assets; the value of their financial assets, such as savings accounts, retirement plans or pensions, stocks, bonds and mutual funds; the value of their nonfinancial assets, such as real estate equity and vehicles; and the total market value of each person's primary housing.

The sample comprised more than 1,200 people, including 626 participants with student loan debt and 581 of their counterparts who did not have outstanding education loans when they left college. All of the participants were born between 1980 and 1984.

All of the people in the study sample had completed at least one year of college.

About half of the people in the sample—45 percent—dropped out of college without earning a degree. Thirty-nine percent of the sample obtained a bachelor's degree, 11 percent received an associate degree, and 5 percent of participants earned a master's degree or other postgraduate degree.

Slightly more than half (51 percent) of the study sample had education loan debt when they left college; the average amount owed was about \$15,200.

The average net worth of people who had student loan debt after graduating or dropping out of college was \$13,680 lower than that of their counterparts. People with outstanding education loans when they left college also had \$39,630 less in financial assets and \$12,670 less in nonfinancial assets, Zhan said.

Student loan debt after college also was associated with lower home

values. About 39 percent of respondents were homeowners at age 30. However, the average home value of people with post-college student loan debt was \$103,000 less than that of their counterparts, the researchers found.

"Our findings suggest that in addition to negatively impacting young people in the short term, education loans may also compromise their financial well-being over the longer term," Zhan said. "Both large and small amounts of education debt act as a barrier to future wealth building."

Student loan debt also may be exacerbating wealth inequality between black and white young adults, the researchers suggested. Blacks were more likely to have education loans after college, and their debt-to-income ratios and loan-to-[financial assets](#) ratios were much greater than those of their white counterparts, according to the study.

Despite these findings, a college degree is still a worthwhile investment, Zhan said.

"Values on all four measures of wealth were higher for people who had a bachelor's degree, and the differences persisted even when we controlled for student loan debt and other factors," Zhan said. "A college degree is still very important in building wealth for [young adults](#), although carrying student loan debt after [college](#) graduation can reduce the payoff."

Parental economic status and having health insurance coverage as a young adult were important predictors of [wealth accumulation](#), the researchers found.

Data for the study were taken from the 1997 cohort of the National Longitudinal Survey of Youth, a nationally representative sample of the

U.S. population that included more than 8,900 respondents.

**More information:** Min Zhan et al, Education loans and wealth building among young adults, *Children and Youth Services Review* (2016). [DOI: 10.1016/j.childyouth.2016.04.024](https://doi.org/10.1016/j.childyouth.2016.04.024)

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