Families with college kids more likely to lose their home during recessions

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In times of economic difficulties, having to pay a child through college could be a major reason for a family to lose their home. This is according to two US researchers, Jacob Faber of New York University and Peter Rich of Cornell University, in a study published in Springer's journal *Demography*. Their investigations show that during the Great Recession of the 2000s, banks often foreclosed on the homes of families who were supporting their children's further education. Faber and Rich therefore recommend that policymakers look for other ways to alleviate families' financial burdens in addition to curbing risky mortgages.

Between 2005 and 2011, 39.9 per cent of Americans between the ages of 18 and 24 attended a two or four-year college (11.1 per cent more than in 1985). Tuition fees also nearly doubled over the same period. Need-based grants and sliding-scale tuition adjustments have made college more accessible to many people, but families still must make a financial contribution. Parents often draw from savings, earnings, and loans to cover this, and some financial advisors are known to recommend that people borrow against their homes.

Faber and Rich evaluated annual college data and foreclosures from 2005 to 2011 among people living in 305 commuting zones in the US. Their sample covered 84.8 per cent of the total US population and included information from rural and urban counties. They analysed data about foreclosures and federal taxes in these zones, and took note of unemployment rates, refinance mortgage debt, home prices, and the number of 19-year-olds living in these areas.

Their findings show that a higher rate of families sending their children to college predicted a higher rate of foreclosures in the subsequent year. They also verified these findings by analyzing three independent datasets tracking individual households over time, each of which show a greater likelihood of foreclosure among households sending children to college. The results expose an unexplored role that higher education costs had on household financial risk during the 2000s.

"This may help explain why some families with children were more likely to experience foreclosure during this period than childless households—as shown in previous studies. Our findings do not suggest that households' decisions to send children to college were as consequential as housing or labor market dynamics in shaping the Great Recession, but it is important to understand all contributing factors, especially because the penalties of foreclosure can be substantial and lasting," says Faber.

The researchers found that the connection between college attendance and foreclosures persisted for families at all points in the income distribution, suggesting that both poor and nonpoor families have had difficulty supporting their children through college. The authors believe that financial aid for college should therefore be more transparent, flexible and comprehensive, to allow parents to see upfront what they should budget for when their child starts studying, even with the help of financial aid. Moreover, they argue, their findings show that college prices have soared beyond what many families can reasonably afford even with tuition offsets, supporting calls to further reign in the high cost of college access.

Rich explained: "Our study warrants policy attention not only to risky home lending, but also to other determinants of financial hazard—such as the cost of college attendance—that can overextend families and render us all vulnerable to future economic crises."

More information: Jacob W. Faber et al, Financially Overextended: College Attendance as a Contributor to Foreclosures During the Great Recession, *Demography* (2018). DOI: 10.1007/s13524-018-0702-7

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