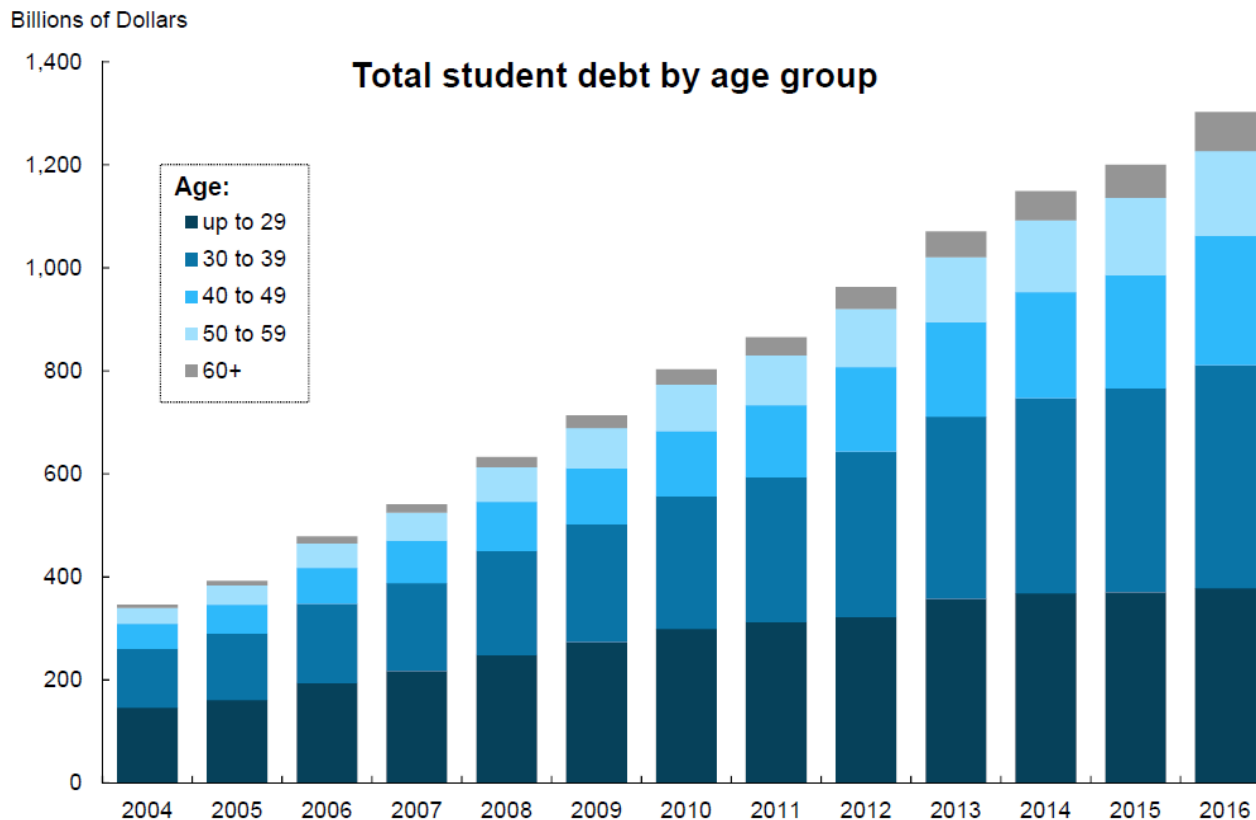

Discussion of
“A Day Late and a Dollar Short: Liquidity and Household Formation among Student Borrowers”
Goodman, Isen and Yannelis

Amir Kermani (UC Berkeley & NBER)

21st Annual Texas Finance Festival
April 2019

Student debt: fastest growing component

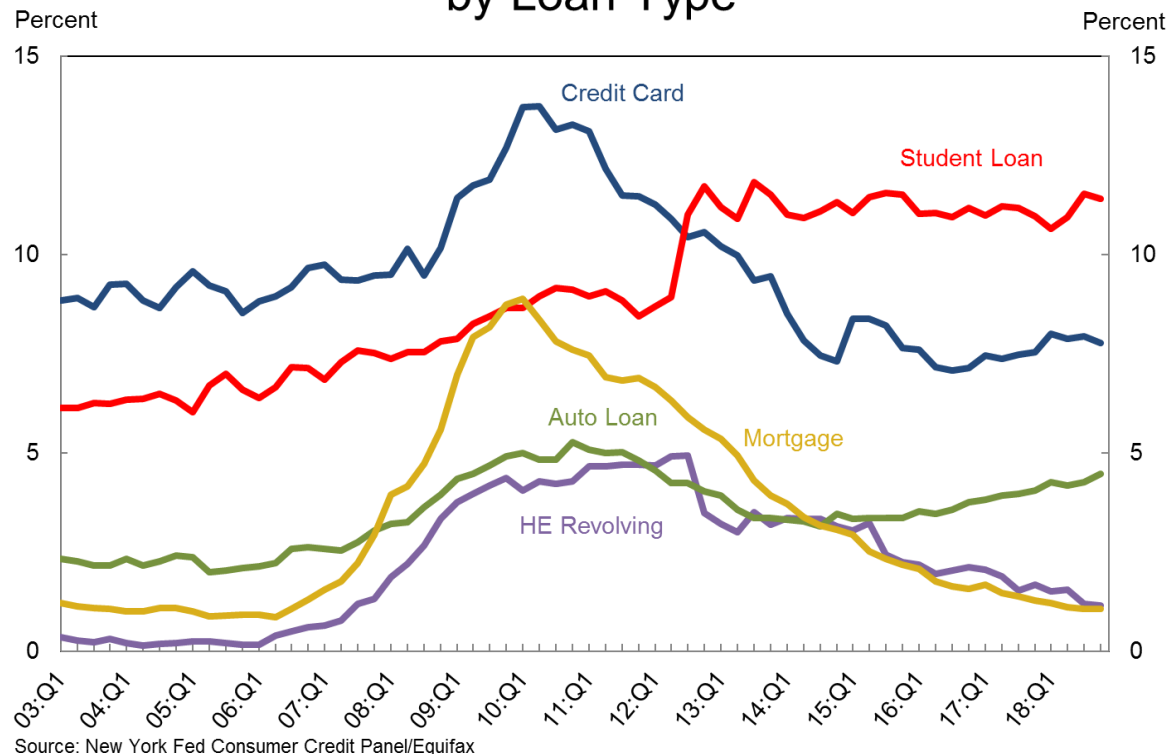
- Student debt has been the fastest growing component of household debt over the last 15 years.
 - Increased from \$.3T (3% of household debt) in 2003 to over \$1.4T (11% of household debt) in 2018 (annual growth rate of ~7%)



Has the highest default rate

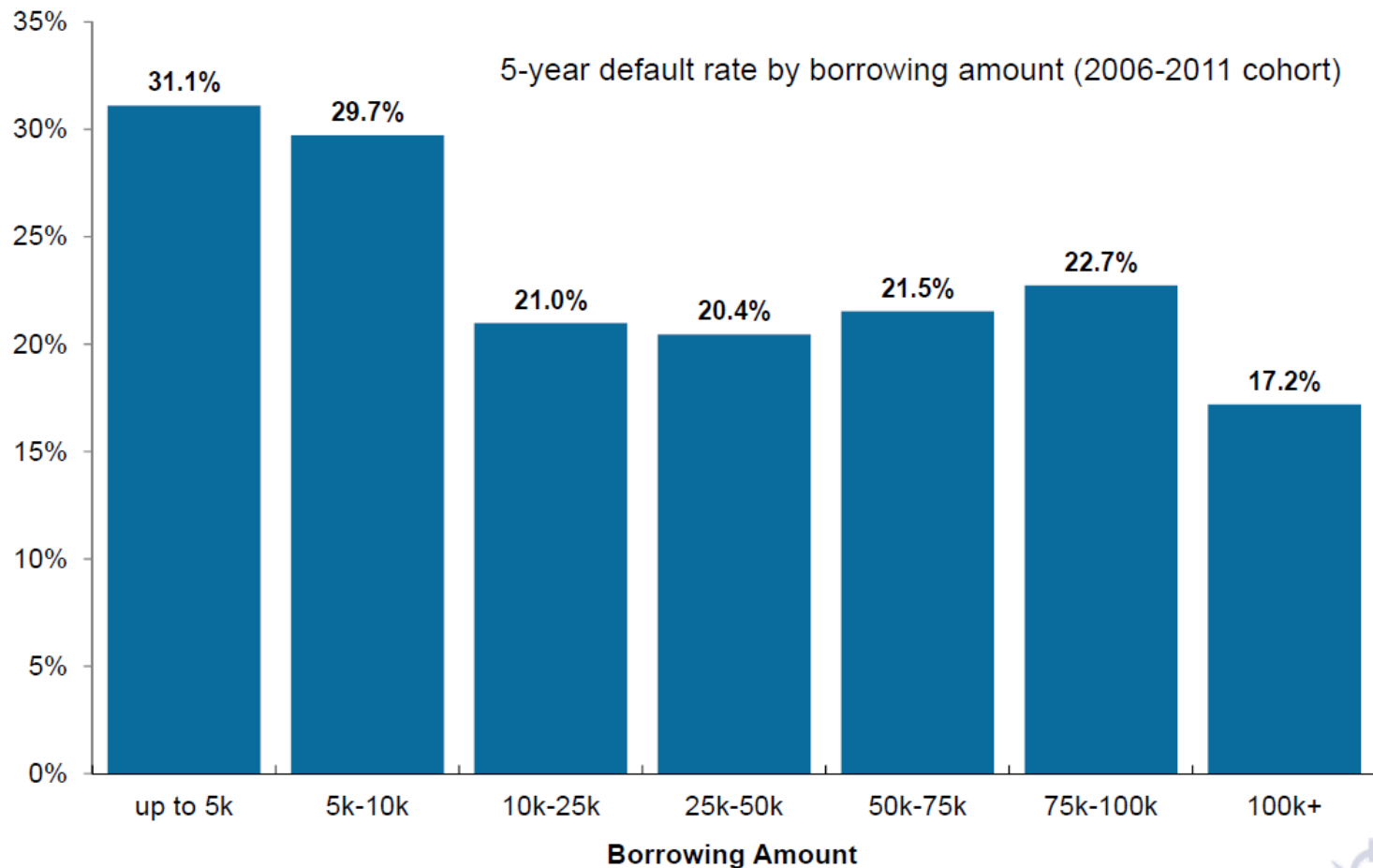
- Student debt also has the highest delinquency rate among all components of household debt.
- This is despite student debt being the only component of debt that is not dischargeable.

Percent of Balance 90+ Days Delinquent
by Loan Type



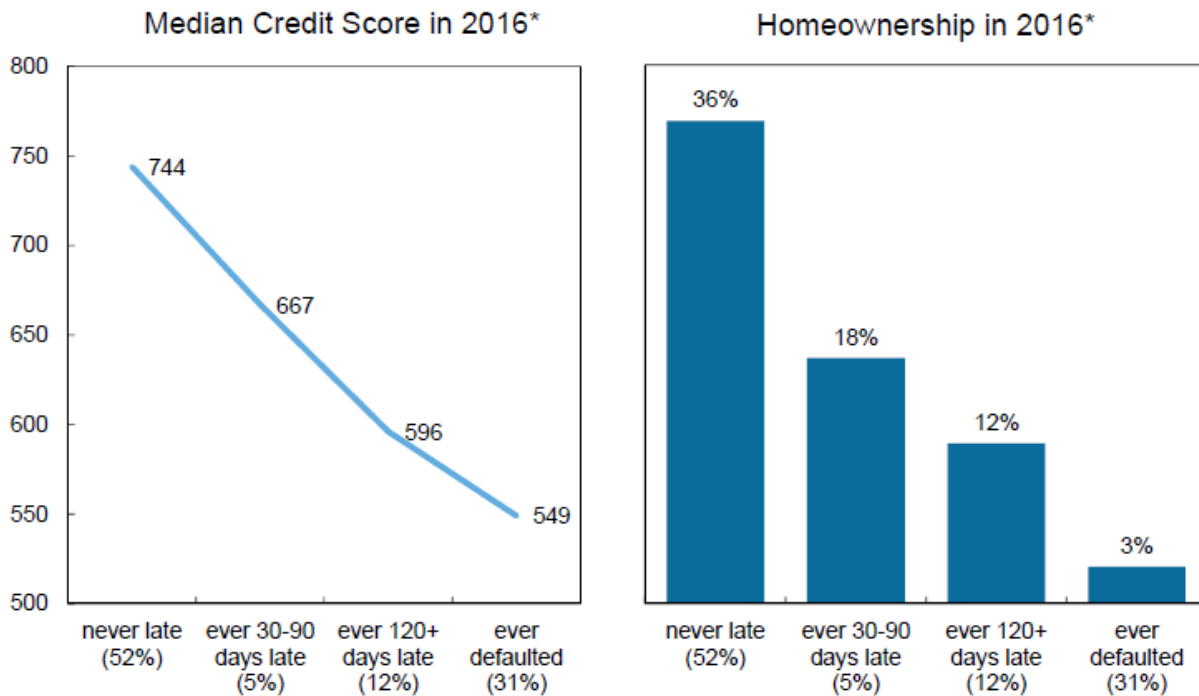
Has the highest default rate

- And a much higher default rate in the recent cohorts and for lower-balance borrowers.



And defaulters should forget homeownership

- Default on student debt is associated with very low credit score, almost zero home-ownership.
 - But this ignores the impact of student loan on non-defaulters, selection,...



* Among borrowers who were age 30 in 2016 and left school between 2006-2011.

Kermani (UC Berkeley & NBER)

Big picture

- The raw statistics are scary!
- Main policy question: Does student debt hurt young people more than help?
 - We should remember that there are two versions of this discussion:
Ex ante vs. Ex post.
- Student debt can affect life outcomes of students through various channels:
 - Change students decision to participate a college/school or not.
 - Change their college/ major choice.
 - Behavioral over-borrowing and increase in probability of being exploited.
 - Tuitionsand
 - Change the liquidity of individuals / households.

This paper

- Uses very interesting RD design based on the timing of the 24th birthday of the students to have exogenous variation in the amount of student debt and grants and shows:
- A combination of larger government student debt and grant is associated with higher (and not lower) homeownership rate.
 - \$3000 larger (loans+grants) → 0.5-1% percentage point higher likelihood to become a homeowner. An increase of 5-10% in transition probability to homeownership.
 - They also found that the result is mainly driven by the liquidity effect and not the human capital channel.

Step Three (Student): Answer the questions in this step to determine if you will need to provide parental information. Once you answer "Yes" to any of the questions in this step, skip Step Four and go to Step Five on page 8.

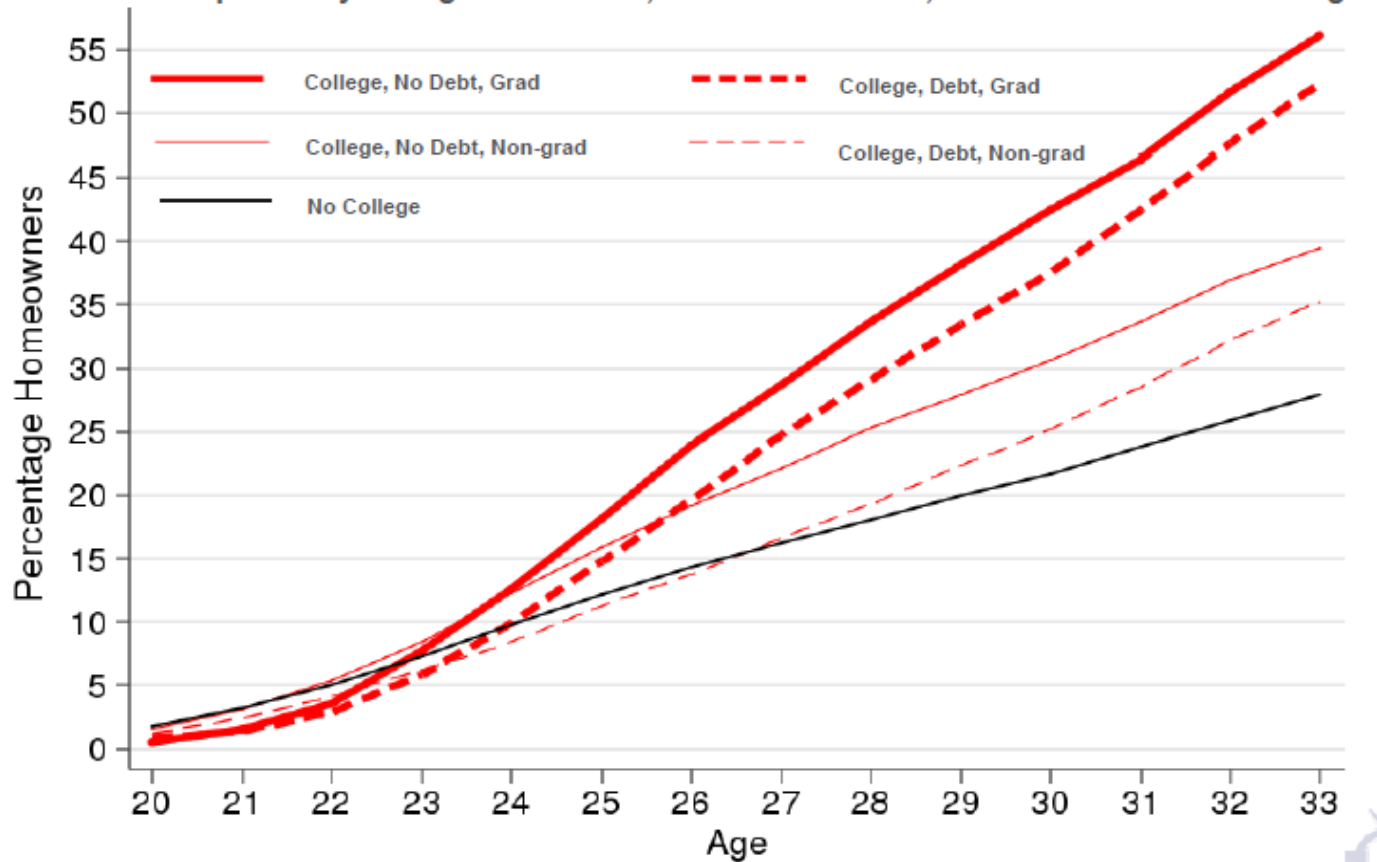
46. Were you born before January 1, 1996? Yes 1 No 2
47. As of today, are you married? (Also answer "Yes" if you are separated but not divorced.) Yes 1 No 2

Comment I: sample selection

- The main result of the paper is for the population who
 - Their participation is not affected by the loan/grant (i.e. excluding for profit universities)
 - Their decision on whether to borrow or not is not affected by the amount of loan/ grant (i.e. restricting to students who did borrow in the prior year).
- What if the main problem with the student debt is that it makes students a target of the for-profit-universities?
- Also, the raw data suggests that the extensive margin of debt can be more important than the intensive margin.
 - Many of student debts in default had a balance of less than \$5k.
 - What if the main issue is that some students cannot pay back any debt?
 - The estimates, by design are for intensive margin.

Comment I: sample selection

Homeownership Rate By College Attendance, Graduation Status, Student Debt Status And Age



Comment II: loan vs. subsidy

- RD is associated with an increase in the grant amount as well as increase in the loan amount.
- What if grants increase probability of home-ownership and student loan reduces it?
- Heterogeneity result based on EFC is helpful in distinguishing the impact of loans vs. subsidies but it can also raise more question.
 - Zero coefficient for $EFC > 0$ households (majority of the sample) can be because of positive impact of grants and negative impact of loans.
 - Participation rate and all the other balance tests needs to be repeated for the sub-samples of $EFC = 0$ and $EFC > 0$.
- Given the fact that you have all the application data, you may want to use the formulas and RDs in determining loan vs grant amount to attack this problem more systematically (like Agarwal, Chomsisengphet, Mahoney and Strobel 2018).

Comment III: FTHC doping?

- The sample consist of Student loan borrowers who turned 24 years old within an academic year between 1998-1999 and 2012-2013 (inclusive).
- The impact of student loan + grant on homeownership is only significant for the years 2007 afterward.
- First time home buyers credit was already helping first time home buyers in terms of making the downpayment.
 - Berger, Turner and Zwick (2018) found FTHC increased transition probability to homeownership by 0.76 percentage point (an increase of 50% in transition probability).
- To what extent the result here is because students liquidity could be leveraged by FTHC?

Comment IV: HTE matters a lot

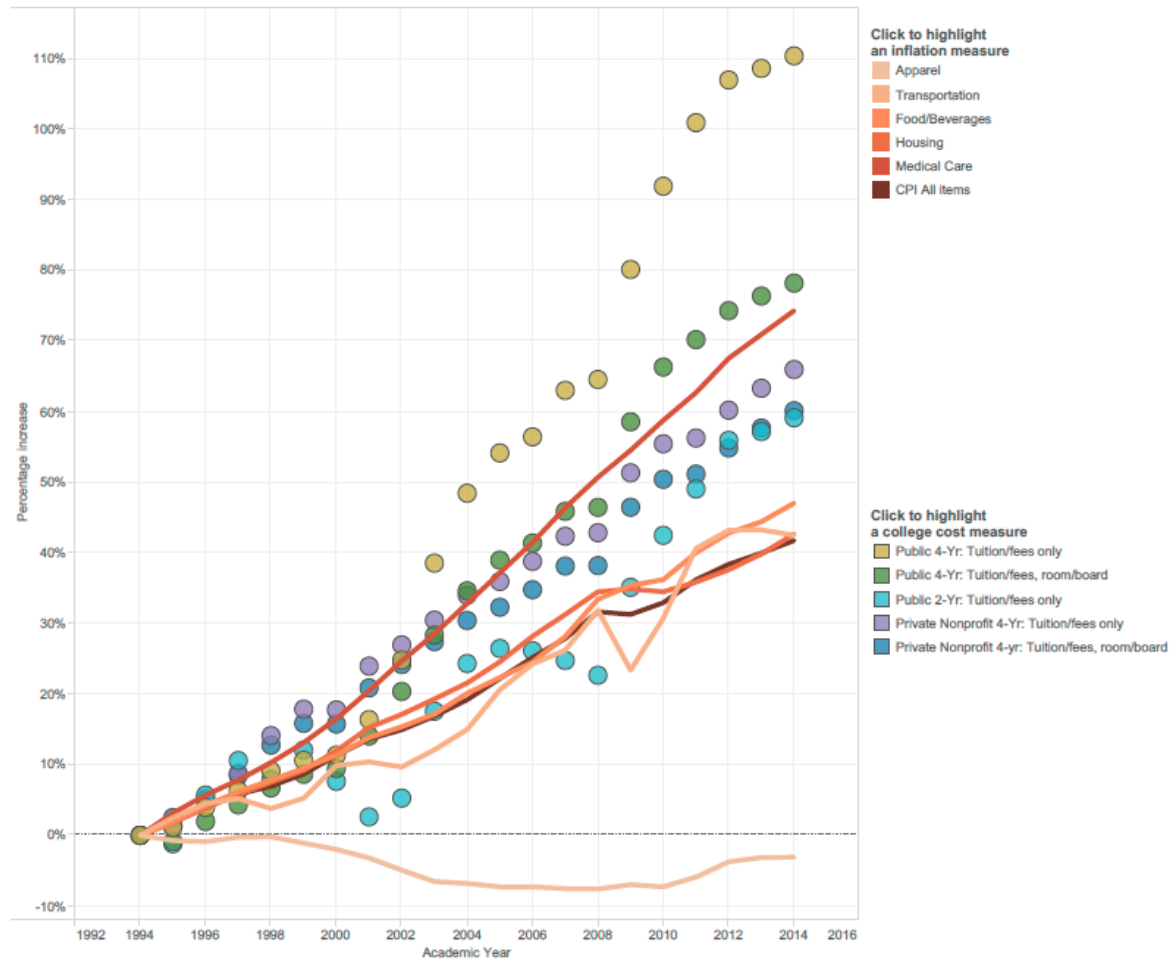
- Both the result of this paper and other papers suggest that there is a significant heterogeneity in the impact of student loan on students life outcome depending on the choice of university, family income, behavioral characteristics, financial education,....
- This seems to be a very natural application of Athey-Wager (2018).
 - Machine learning can be used to estimate HTE in a more systematic way.
 - Also it can help to reduce the dimensionality of the information in the applications.

Other Comments

- Is there any way to merge this data with credit bureau data?
- Does the RD predict higher total loan amount upon graduation?
- Does your data allow you to use the RD to investigate the impact of loan amount on probability of default?
- Impact on probability of default seems to be first order.
 - For example, what if most of those who default would have not purchase a home before they become 35 in any case?
 - Home ownership could be too luxury of a good for those who defaulted on \$5k.

And let's not forget about tuitions

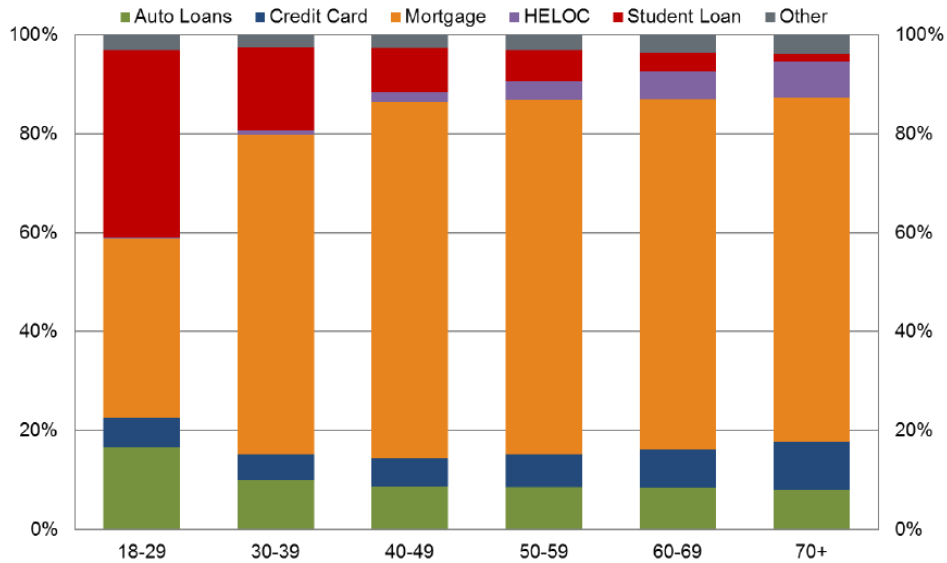
- Tuition inflation rate is even higher than medical care inflation.
- An important part of it is that state universities receive significantly less state support (and therefore charge higher fees compared to what they did in 80s).



Conclusion

- This paper does a massive data work and uses very intuitive RD design to estimate the causal impact of student debt on homeownership.
- Would be great to use all the information in the application to distinguish between the impact of grants and student loans.
- Would love to see more HTE instead of LATE.
- And why not leveraging the research design to look at other dimensions (school participation, default rate, graduation rate)?

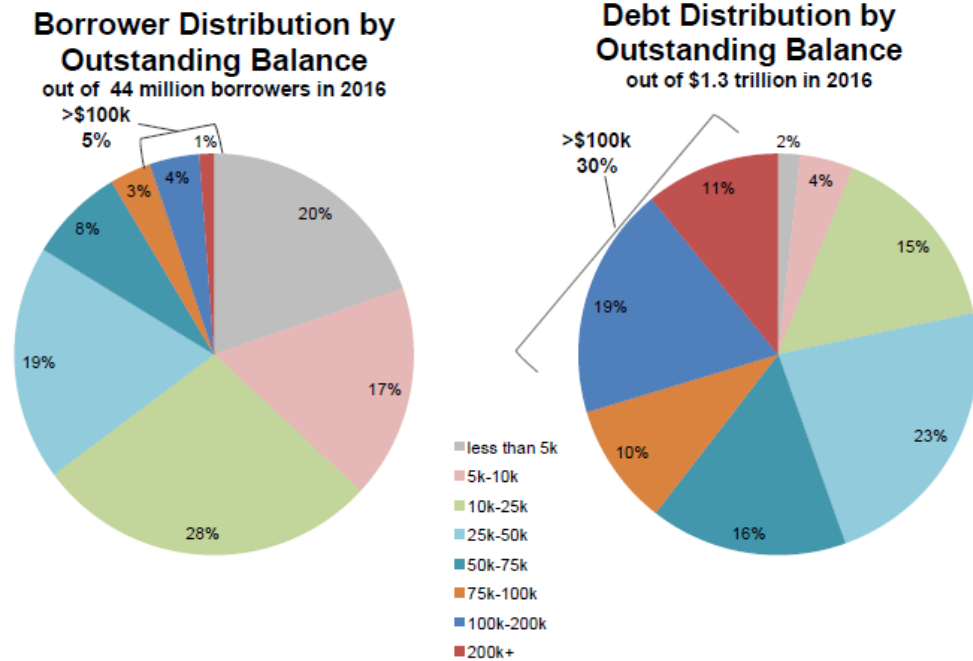
Debt Share by Product Type and Age (2018 Q4)



Note: Age is defined as the current year minus the birthyear of the borrower. Age groups are re-defined each year.

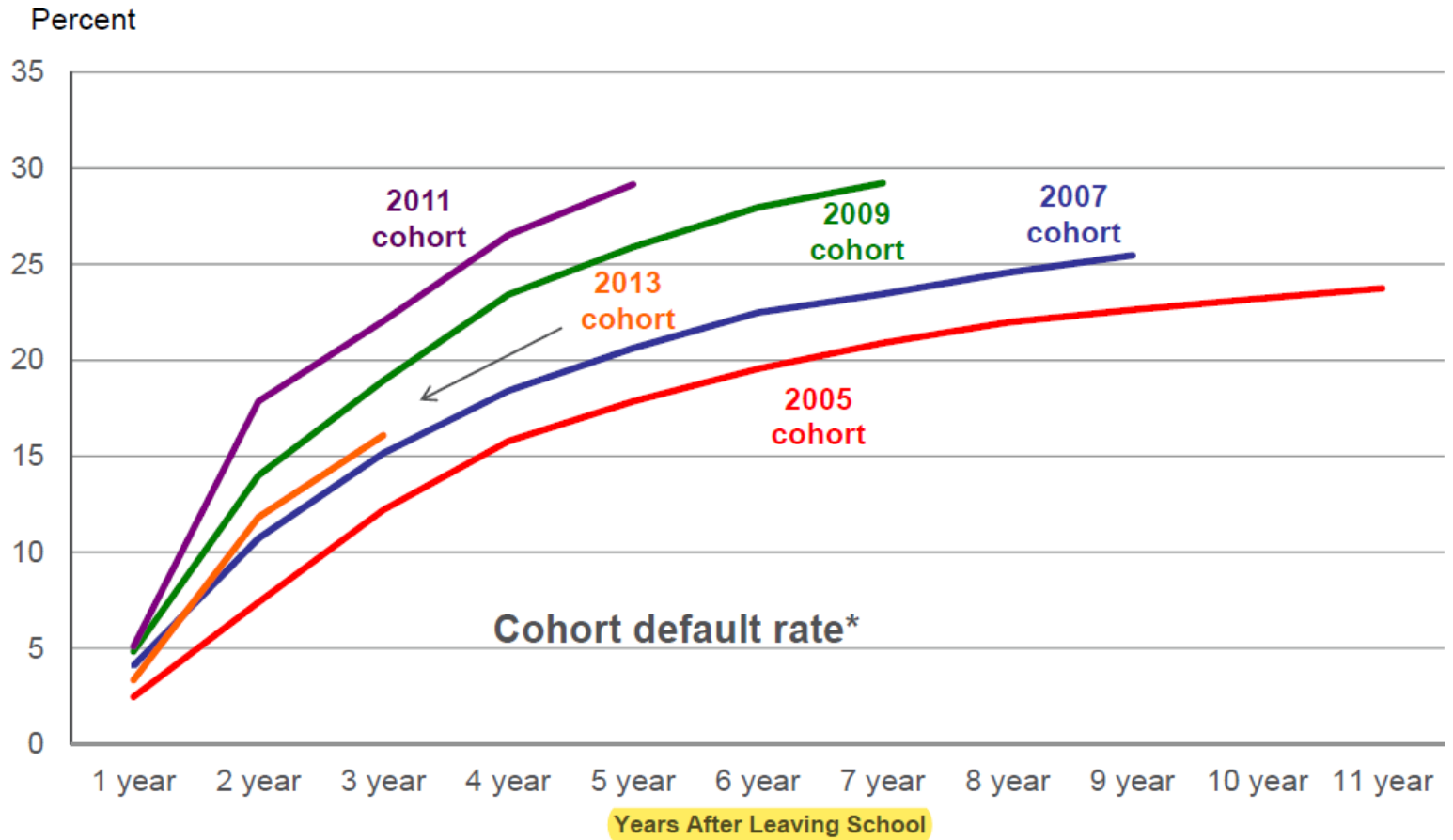
Source: New York Fed Consumer Credit Panel/Equifax

5% of Borrowers Have More Than \$100,000 Debt in 2016, But Account For About 30% of Total Debt



Source: New York Fed Consumer Credit Panel/Equifax

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- FTHC. We estimate the FTHC increased the rate of transition into homeownership 0.76% relative to a baseline rate of 1.43%.

(a) Distribution of First-Time Buyers, 2002-2013

