



**To Have and To Hold:
An Analysis of Young Adult Debt**

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Researchers have long recognized the importance of studying young adults' experiences in labor markets, in the educational arena, and within the family. These are three domains considered key to shaping the transition to adulthood in the United States (Settersten, Rumbaut and Furstenberg, 2005). Young adults' experiences in credit markets have received less attention in the scholarly literature, although economic theory certainly predicts that the ability to borrow may be integral to attaining a number of milestones that typically are associated with adulthood.

This paper examines contemporary young adults' debt holdings, with an emphasis on their patterns of borrowing, changes in their debt obligations over time, and on the relationship between debt and the attainment of several traditional markers of adult status. The paper is largely descriptive, aiming to provide an analysis of borrowing patterns and to summarize some existing debates about young adult debt. One key theme that emerges from the research is that, as a group, today's young adults do not appear to have an unusual or distinctly troublesome relationship to credit markets. As is true of young adults' experiences in other realms of society, there is variation within the group however.

The paper is organized as follows. Section II characterizes the borrowing behavior of today's young adults. Section III describes trends in credit market participation over time. Section IV compares young adults' debt to their resources. Sections V and VI examine different subgroups of the young adult population. Section VII concludes.

II. Borrowing by today's young adults

How many young adults are in debt, how much debt do today's young adults have, and why are young adults borrowing money? One can answer these questions by looking at total debt outstanding and at the different forms of debt that young adults hold. Table 1 presents data taken from the 2001 Survey of Consumer Finances (SCF), a nationally representative survey of U.S. households conducted under the auspices of the Federal Reserve.¹ The 2001 SCF reports six broad categories of debt, with additional information about the specific purposes for which households borrowed. The six broad categories include (1) mortgage or housing debt, (2) lines of credit other than home equity lines, (3) residential debt other than that associated with the primary residence, (4) credit card debt, (5) installment debt, and (6) other debt.²

As Table 1 reveals, about 85% of young adult households, defined as those whose head is age 25 to 34, have some debt. This figure is somewhat higher than the proportion of all U.S. families that are indebted, however that is not surprising. Since earnings typically rise with age, young adults are more likely to be in a position in which they will wish to borrow against future income in order to smooth consumption over time. Additionally, young adults are at a point in life at which they can be expected to be acquiring indivisible goods, such as vehicles or homes, whose purchase prices normally exceed an individual's monthly income, requiring the individual to turn to credit in order to finance the purchase. Finally, many are at the age at which they are expected to be acquiring human capital.³ This too requires loans. Borrowing for any of these reasons is traditionally recognized as a "good" use of credit by standard economic theory.

Analysis of the six SCF categories reveals that about 43.6 percent of today's young adult households carry mortgage debt, suggesting that many young adults are taking advantage of opportunities that are available to them in mortgage markets. As noted above, borrowing to finance the purchase of a home is one use of debt that generally is considered to be good. Aside from the consumption value of housing, housing also represents an investment good, and for

many U.S. families home equity represents an important component of household wealth (Charles and Hurst, 2002). Accordingly, one can argue that debt that is accumulated in order to secure a home also can be viewed as debt that ultimately should facilitate wealth creation.⁴ The SCF data also indicate that about 1.7 percent of young adult households have lines of credit other than a home equity line, that 3.3 percent have debt associated with residences other than a primary residence, that about 51 percent have credit card debt, that 65 percent carry installment loans, and that about 9.4 percent have other debt. As shown in Table 1, for many of these categories the percentages are comparable to those of the population at large. Credit card debt and installment debt are the primary exceptions. The fraction of young adult households with credit card debt (51 percent) is higher than the incidence of credit card indebtedness in the population at large. Similarly, the proportion of young adults with installment debt (65.1 percent) also exceeds the comparable figure for the population at large (45.2 percent).

Do the higher rates of installment debt holding and of credit card indebtedness signal a misuse of credit or a lack of financial discipline among young adults? This is an interesting question to contemplate given the recent concern about young adults' borrowing that has appeared in the popular press (Manning, 2000; Time, 2005; and Stewart, 2005; for example). It is not clear that the answer to the question is yes, however. As noted earlier, theory suggests that financial markets exist partly to allow individuals to transfer purchasing power over time, and the normal costs associated with obtaining an education, setting up an independent household, or obtaining a car to meet one's transportation needs may require a young adult to borrow against future income. Accordingly, the 20 percent gap in installment debt holding might readily be explained by the fact that many young adults will have had to borrow to obtain a car, or furniture, or to finance their schooling; while many middle-aged and older Americans will have had time to retire these debts. Data on auto ownership indicate that the rate of car ownership among young adults is similar to that among other households; and if one disaggregates young adult borrowing using the SCF's purpose of loan data, one finds that the fraction of young adults holding auto loans is about 13 percent higher than the fraction of households holding auto loans in the population at large.⁵ This suggests that a greater proportion of young adults are still paying off their vehicles, and undoubtedly explains some of the gap in installment debt rates, since auto loans fall under the installment debt category. The SCF installment debt category also includes educational loans. Here, too, Table 1 indicates that a greater percentage of young adults have this type of debt (29 percent) than is true for the population at large (14.6 percent), and this also would cause a difference in rates of installment debt holding.

The higher incidence of having credit card debt poses similar challenges of interpretation for a researcher. First, the difference in incidence of credit card debt is about 7 percent which, while not small, is not incredibly large. Moreover, greater use of credit cards may reflect the use of cards to finance expenditures that economic theory deems it normal for young adults to have.

Table 2 presents the mean level of debt held by young adults and the individual means for different types of debt. It is interesting to note that, on average, the amount of debt held by young adults regardless of type (\$55,616 in 2001 dollars) is similar to the mean for all U.S. families (\$54,514 and not shown in the table). Table 2 also reports median values because the distribution of debt is uneven. This is apparent as the figures characterizing the average household (the mean outcomes) are appreciably higher than the medians for the different debt categories. When a distribution is highly skewed, as a focus on the mean values can lead one to overstate the degree of indebtedness of the typical household. The median level of debt held by young adults is \$25,000. When comparing this value to the median for the population at large,

we find a substantial difference. The median level of debt for the population at large is only \$14,300 (not shown). Hence, while the analysis of medians indicates that the typical young adult household holds much less debt than one would be led to believe if one examined the group's average, the typical young adult household does have more debt than the typical U.S. household.

As Table 2 reveals, the gap between the mean and the median is large for most debt categories. Moreover, for many types of debt, including auto debt and educational loans, the typical young adult household does not have any debt outstanding. This explicates the point that a focus on means can be misleading. It suggests that, while some young adults may have high debt levels, there is little to suggest that the typical household carries extensive debt.

Table 3 presents data depicting the distribution of young adult debt across different categories of debt. Almost three-quarters of today's young adult's debt is held in the form of mortgage or home-related debt. This is comparable to the share that this category represents for the U.S. population at large. The table also indicates that installment debt represents a slightly higher share of total debt for young adults than it does for the U.S. population at large (17.3 percent compared to 12.3 percent). The shares for auto debt and educational debt are also slightly higher for young adults than they are for the population at large. The fraction of total debt held in the form of credit card debt (about 4 percent) is not appreciably different for young adults than it is for all U.S. households (about 3.4 percent) however.

III. Trends Over Time

Comparing young adults to the population at large is one way to contextualize their behavior. Examining trends over time is another. We use data from the 1983 SCF and data from the Federal Reserve's 1963 Survey of Financial Characteristics of Consumers (SFCC) to compare today's young adults to their counterparts in the 1980s and the 1960s.⁶ As shown in Table 1, the proportion of young adults holding debt has remained fairly stable over time. As noted earlier, in 2001 85 percent of young adult households held some form of debt. This is quite similar to the 83 percent figure found for 1983 and the 85 percent figure for 1963. The fraction of young adults holding mortgage debt appears to have risen slightly over time, from 36.9 percent in 1963 to about 39 percent in 1983 to 43.6 percent in 2001; and this increase is mirrored by a slight increase in homeownership rates over the 1983 to 2001 period, from about 45.3 percent to 48.4 percent. This suggests that increased access to credit over the period may have helped to boost homeownership rates. Somewhat surprisingly however, there has been an increase in the proportion of young adults holding auto debt over the 1983 to 2001 time period, from about 40 percent to almost 50 percent; yet rates of auto ownership actually have dropped, from about 86 percent to 81 percent of the young adult population.

The data in Table 2 show that, on average, debt levels have risen among young adult families since the 1960s. The growth in debt that occurred between 1983 and 2001 is particularly striking. The average family held \$32,610 in debt in 1983 (measured in 2001 dollars). By 2001 this amount had grown to \$55,616. The change at the median was similarly striking. While the typical young adult household held a little over \$8,000 in debt in 1983 (measured in 2001 dollars), by 2001 this figure had grown to \$25,000. This is consistent with the observation that financial markets underwent significant changes during this period, which rendered them able to extend more credit to U.S. households (Laibson 1998, for example). The growth in indebtedness at the median also was substantial over the 1963 to 1983 period.

When analyzing the trends for particular types of debt, for mortgage or home-related debt one sees the pattern of modest change, on average, between 1963 and 1983 but rapid growth in

the latter period. The amount held almost doubled between 1983 and 2001, rising from about \$22,233 to \$41,054. The average home price rose about 36 percent during this period (Census 2006:622) There also was an increase in the average amount of installment debt held, in credit card balances, in auto debt and educational debt, on average, during this 18 year period. The changes in medians over time for each of the individual categories are less dramatic however. The median level of mortgage debt held by young adults has remained stable at zero. A similar result holds for lines of credit other than those tied to the home, residential debt other than that associated with the primary residence, and other debt. (These last three categories are relatively unimportant to young adults however, as few hold these types of debt). The pattern also exists for auto debt and educational loans. Despite the fact that many of today's young adults do have auto and education loans, along with high levels of education and automobiles, the data in Table 2 indicate that the amounts the typical young adult has borrowed in these categories has been fairly stable over time.⁷ For at least 50 percent of young adult households the amount of debt outstanding is zero.

It is also interesting to note that while the amount of credit card debt held by young adults has risen substantially on average since 1983 (the earliest year for which we have data), the SCF data suggest that the median level of credit card debt rose only from \$0 to \$70 for young adults. This is a rather modest change over time. Installment debt is the one category in which there has been dramatic change over time at the median. The amount of installment debt held by the typical young adult household doubled between 1963 and 1983, and then more than quintupled between 1983 and 2001. This is a rather odd result since the data on educational loans and auto debt suggest that the growth has not been fueled by dramatic changes in education or vehicle debt. In this instance one might have cause to debate the choices that young adults are making. For example, does it mean today's typical young adult household has close to \$3,800 worth of furniture and appliances, while young adults of the past accepted more modest furnishings? Would over \$3,000 in furniture and appliances be acceptable given today's social norms and the common practice of having a TV, a computer, and a dishwasher in one's place of abode? This case provides an example of the difficulty involved in attempting to discern whether the debt held by young adults is "good" or "bad" debt. Without specific information on purchases, individual preferences, and lifetime resources, economic theory does not always permit a researcher to say whether an individual's observed behavior is rational or not.

Has the allocation of young adult debt changed much over time? The data in Table 3 reveal that mortgage debt once represented about 77.5 percent of the total debt held by young adults (in the 1960s), which is slightly higher than its present share (about 74 percent). Unsurprisingly, the fraction of total debt held in the form of credit card debt, while not large in any period, has grown since 1983 (the first year for which we have data for this category). Installment debt has remained a relatively stable share of total outstanding young adult debt, while auto debt's share has fluctuated somewhat, and educational debt has risen in importance by about 4 percentage points.

While there have been some interesting changes in young adult debt over time, our examination of young adults as a group presents an unremarkable picture. As a group, they do not look surprisingly different from the population at large and when differences are present, they are often consistent with the predictions of standard economic theory.

IV. Young Adults' Debt Relative to Their Resources

Is the assessment that the typical young adult household does not appear to hold an unusual amount of debt tied to a failure to place the debt in context of the resources that young adult households have? While one expects young adults to have fewer financial resources immediately at their disposal than the amount of debt that they have (for if their incomes or savings were high, they would not need to borrow to finance schooling or to acquire indivisible goods), it is common for researchers to attempt to determine whether household debt might be burdensome by comparing various measures of the obligations that holding debt entails to different measures of the amount of resources the household has on hand. Hence, while one cannot always tell whether it was "good" or "rational" for a young adult to have taken on debt at the time the debt was incurred, one can draw conclusions *ex post* about whether the existing level of indebtedness might potentially pose problems.⁸ Four measures are often examined to perform this assessment. One measure is the debt-to-income ratio. This measure divides household debt by household income, and indicates whether a debtor could pay off her debt using her current income. A second measure that analysts use is the debt-to-net worth ratio. A third indicator is whether a household has fallen behind on making payments on its debt. And the final indicator is the percentage of monthly income that one must allocate to making payments on one's debt. A payment-to-income ratio exceeding 0.4 is considered to be high and a sign of financial distress (Aizcorbe, Kennickell and Moore, 2003).

Table 4 presents data that characterize the global financial condition of young adult households. Comparing young adults' debt to their income yields a groupwide debt-to-income ratio of 1.11, which is higher than the comparable ratio for the population at large. The debt-to-income ratio for all U.S. households lies below unity, indicating that the total value of outstanding debts does not outstrip income. The debt-to-net worth ratio for young adults is 0.57. This too is higher than the comparable figure for all U.S. households. The debt-to-net worth measure does not appear to have changed dramatically for young adults over the 1963 to 2001 time period however. This indicates that the dramatic rise in debt over this 38 year period was matched by a growth in family resources, when wealth is used as the measure of available family resources. With income as the measure of family resources the story is different, however. Table 4 shows that the young adult debt-to-income ratio rose from about 0.733 to 1.11 between 1963 and 2001.

Row 9 presents measures of the percentage of households who have problems making payments on time. In 2001, about 11 percent of young adult households experienced payments problems, defined as having fallen at least two months behind on making payments on one's debt. This compares to a figure of 7 percent for the nation as a whole, according to data reported in Aizcorbe, Kennickell and Moore (2003:29). While one cannot readily compare the late payment measure reported in the 1983 SCF to the one reported in the 2001 SCF because the former simply asks whether a household has ever been late on a payment without defining a specific time window, Table 4 does reveal that some young adult households also had problems making payments on their debt on time in 1983.

A final indicator that researchers often use to determine whether debt is burdensome is what percentage of monthly income must be used to service one's debt. This information is captured in the monthly payment-to-income ratio. The average monthly payment-to-income ratio for young adult households is 0.19 or 19 percent. Our analysis reveals that about 9.3 percent of young adult households have a payments-to-income ratio in the distress range (one that exceeds 40 percent).⁹ This implies that the typical, or median, young adult household does not experience financial distress. The frequency of financial distress is actually lower than the

rate for the U.S. population at large. As shown in Table 4, about 11 percent of all U.S. households are in a financially distressed state (Aizcorbe, Kennickell and Moore, 2003). Young adults also have slightly lower bankruptcy rates than the population at large, about 7.7 percent compared to 10 percent according to the 2001 SCF data.

V. The Dispersion of Debt among Young Adults

As noted earlier, the distribution of debt among young adults is highly uneven. This section therefore disaggregates the group in a number of ways. We find substantial variation by debt quintile, less between the indebted and those who are not, differences by income level, and differences between the educated and the less educated, whites and non-whites, and homeowners and renters.

Examining the debt distribution

While 85 percent of young adults have some debt, the analysis of the 2001 SCF data indicates that the top 20 percent of young adult debt holders holds over 60 percent of the group's debt, and that the bulk of young adult debt is concentrated in the hands of 40 percent of the population. (See Table 5.) The middle quintile holds just under 10 percent of the group's total debt.

The plight of indebted households

Table 6 depicts the borrowing patterns of indebted young adults. As expected both the incidence of holding debt and the amounts held tend to be higher for this subgroup than they are for the young adult population at large. The differences in amounts held for several key types of debt, such as mortgage debt and credit card debt, are not large however, which means that one can classify young adults easily by simply splitting the group into a subset that holds no debt and another subgroup that has rampant borrowing. The mean level of debt held by indebted young adults is about \$10,000 higher than the mean for the entire group, with \$7,000 of the difference explained by the higher fraction of families holding mortgage debt and the greater amount of home-secured debt that results. The higher amount of installment debt held, on average, accounts for another \$2,000 of the difference. Somewhat surprisingly, credit card debt does not contribute much to the difference in debt levels between the indebted and the young adult population at large. The average credit card balance among indebted young adults is \$2,640.¹⁰ This is similar to the average balance among all young adult households--\$2,246. Moreover, the typical (the median) indebted young adult household holds only about four hundred dollars worth of credit card debt. This does not represent a large percentage of the total debt held. The most striking difference exists with auto debt. The median amount of auto debt held among all young adults is \$0, but the median for indebted young adults is much higher (\$2,180).

Table 6 also puts the indebted households' debt in the context of their resources, to determine whether the debt levels held appear burdensome. The debt-to-income ratio for indebted young adults is about 1.21, and the debt to net worth ratio is .604. Our analysis (not shown) also indicates that eleven percent of indebted young adults are financially distressed, and about 11.7 percent have had trouble making payments on their debt on time. It also reveals that almost 18 percent of young adults who carry some debt have negative net worth, meaning the value of their debts exceeds the value of their assets; and the percentage of young adult households in this position has risen over time.

Young adult debt across the income distribution

Table 7 shows the average level of debt held at different points along the income distribution. We assigned young adult households to an income quintile based on cut-off points taken from the national distribution, and designated them as poor or not in a similar manner.¹¹ As expected, young adult debt generally rises with income. The average amount of debt held by high income households is about 12 times the amount held by the average low income young adult household; and, at the median the ratio between the top and bottom is almost 146:1. There are two important exceptions to the rule of rising debt levels as income rises.¹² First, it is young adults in the middle income distribution who hold the most credit card debt, on average. Second, the amount of educational debt held, on average, rises and then falls slightly at the top of the income distribution.

In addition to the higher balances, high income households have the highest rates of debt holding for almost all categories of debt, and much higher monthly payment levels than the lower income groups (on average). However, the rate of financial distress is much higher at the lower end of the distribution. Almost one-fifth of low income young adults (18.2 percent) spend more than 40 percent of their monthly income servicing their debt.

We also examined mean and median debt levels for young adults who are poor (table not shown). Here too one finds the expected pattern of richer households having more debt than poor households for most debt measures, both on average and at the median. Relative to resources, the non-poor's debt levels are not high, however. The debt-to-income ratio for poor young adults as a group, 1.57, exceeds that of the non-poor (1.10); and the debt-to-net worth ratio for poor young adults is .71, while it is only .57 for the non-poor. Unsurprisingly, the rate of financial distress (21.2 percent) is much higher for poor families compared to the rate for young adults who are not poor (only 7.7 percent).

Debt by levels of education

The mean and median levels of total debt also rise with education levels (Table 8). The average young adult household whose head has not completed high school holds about \$32,661 in debt; for high school graduates the average is \$37,718, for those with some college it is about \$47,423; and for those with a college degree the average amount of debt held is \$90,315. Amounts held rise across educational levels at the median as well--from \$6,830 to \$13,000 to \$25,110 to \$50,000. This pattern of rising debt undoubtedly reflects the higher income prospects of highly educated individuals, specifically the greater prospects for future wage growth, which would be expected to create an incentive to borrow against future income for those with greater human capital. The higher debt levels certainly do not come with a greater strain on resources. The debt-to-net worth ratio is lowest for the highly educated and highest for those without a high school degree. Educated young adults appear to have sufficient resources to offset their larger debt loads.

Interestingly, levels of mortgage or home-secured debt are similar for high school graduates and those who failed to complete high school, as are rates of mortgage holding (38.5 percent compared to 37.3 percent). On average, the former have about \$26,725 in mortgage debt while young adults with high school degrees hold \$25,558 in housing debt, on average. As individuals move to obtain some college however, and then move on to a college degree, both the amounts of mortgage debt held and the rates of holding mortgage debt rise (to \$33,143 and then on to \$69,087 at the mean; and 42.3 percent to 52.8 percent). These data are consistent with

data suggesting that the plight of the less skilled is not great. It appears that there is not much of a payoff in mortgage markets to having a high school degree. Instead, it is when one moves on to obtain at least some college that one's prospects in this market rise.¹³ It is also interesting to note that high school graduates have the highest rates of financial distress--about 13 percent compared to about 9 percent for those who have not completed high school and about 7 percent for the other two categories.

Our analysis finds that the average young adult household whose head has at least a college degree has about \$7,064 outstanding in educational loans.¹⁴ In recent years there has been a boisterous discussion of the rising cost of a college education, the changing way that college educations are financed, and the loan burdens that individuals who wish to obtain a degree must assume (Monks, 2001; College Board 2004a and 2004b, Draut and Silva, 2004; for example). This public debate is interesting because it has raised questions about who should pay to educate the nation's youth, such as whether it should be the individuals themselves because human capital investment generates a return in the labor market, or whether it should be the government because the nation's past history includes episodes in which the government subsidized education through legislation such as the GI bill. Despite the rising tuition costs, a study by Barrow and Rouse (2005) finds that the payoff to obtaining a college degree remains high (reported in Nash, 2006). Nash (2006) reports that Barrow and Rouse find that the average lifetime benefit from attending college hovers around \$300,000.

Debt by employment status

Another on-going debate surrounds the claim that today's young adults face large levels of debt that can serve as a barrier to obtaining employment (Manning 2000; and Stewart, 2005 for example). Proponents have argued, for example, that young adults with high debt levels may be viewed unfavorably by prospective employers when background checks reveal this financial condition. While a solid test of this hypothesis would require one to have a sample of recent college graduates with varying employment outcomes, so one could determine whether having run up a lot of debt during college makes one less likely to receive an employment offer upon graduation, a crude check of the hypothesis is provided by examining the debt levels of working and non-working college graduates. A finding that the unemployed have more debt, on average, than the employed college graduates would be consistent with a hypothesis of debt serving as a barrier to employment (though not definitive since high debt loads could also be a consequence of unemployment). Our examination of SCF data reveals that both the mean and median debt levels are higher for employed college graduates, however. The mean for the employed is \$92,569.02 while the mean for the unemployed is \$50,210.40; and the medians are \$61,000 and \$10,100 respectively (table not shown). These data are more supportive of a traditional economic story of those with higher earnings prospects and labor market prospects tending to borrow more against their future income than of a widespread trend of college graduates being unable to find employment because they are overly indebted.

Debt by race and ethnicity

Settlersten, Rumbaut and Furstenberg (2005) note that experiences in early adulthood can differ greatly by race and ethnicity. Young adults' experiences in credit markets are no exception. Our analysis indicates that a greater percentage of white households are indebted compared to non-white young adults—90.1 percent compared to 73.5 percent (table not shown).¹⁵ This higher incidence of indebtedness also is seen when one examines individual debt

types: The percentage of whites with credit card debt (53.8 percent) is slightly higher than the percentage of non-whites holding this type of debt (44.7 percent). Installment debt rates are also higher for whites (about 70 percent compared to 53.9 percent). The percentage of white young adults holding mortgage debt (47.9 percent) exceeds the percentage of non-whites holding this debt type (33.5 percent); and the incidence of debt possession is also greater among whites for auto debt (54.6 percent for whites compared to 37.7 percent for non-whites).¹⁶

In what other ways do whites and non-whites differ? Levels of total debt held are higher for whites than for non-whites, with the race difference particularly pronounced at the median. The average white young adult household possesses \$65,296 of debt, while the average non-white young adult holds \$33,165 in debt. The typical (median) white young adult household holds \$37,020 of debt, while the typical non-white young adult holds only \$6,000. While the shares of total outstanding debt held in the form of mortgages, credit card debt, and other lines of credit are similar by race, the shares held in the form of installment debt, education debt, auto debt and other residential debt differ.

The debt-to-income ratio is higher for whites as a group than for non-whites: 1.16 percent compared to 0.942. This may reflect differences in prospects for future wage growth by race. Many researchers argue that the labor market prospects of African Americans have declined with the falling fortunes of less-skilled workers. If non-whites' prospects for wage growth are limited, one would expect them to be less apt to borrow against future income. When examining debt-to-net worth ratios, it is white young adults who have the advantage, however. Their debt-to-net worth ratio is about 0.54, while non-whites (who have lower levels of wealth) have a higher debt-to-net worth ratio of about 0.82.

Differences aside, there are interesting similarities between whites and non-whites. Payment delinquency rates are somewhat similar, with almost 10 percent of whites having made late payments and 11 percent of non-whites finding it difficult to make payments on time.¹⁷ Additionally, the 2 percent difference in rates of financial distress also is not statistically significant. Neither is the difference in bankruptcy rates (about 8.1 percent for whites versus about 6.9 percent for non-whites), and there is no substantive difference in the fraction of white (15.5 percent) and of non-white households (14.2 percent) that have negative net worth.

Debt by housing tenure

Homeownership appears to afford young adults with a modicum of stability. This is consistent with the findings of Caner and Wolff (2004), who write that homeowners are wealthier than renters, underscoring the notion that mortgage debt can be a vehicle to building wealth. Our analysis (not shown) suggests that total outstanding debt is higher for young adult home owners, both on average and at the median, than it is for renters. However, the incidence of negative net worth is lower for homeowners, as is the incidence of payment delinquency. Almost 25 percent of renters have negative net worth compared to only about 5 percent of homeowners. About 11.6 percent of renters have problems making payments on time, while only about 8.5 percent of homeowners fall into this category. Homeownership does not appear to be stress-free however: about 16.2 percent of homeowners are financially distressed, while only about three percent of young adult renters have monthly payment-to-income ratios that exceed 40 percent. Moreover, both debt-to-income and debt-to-net worth ratios are higher the for young adult homeowner group than they are for the renting group. For example, the debt-to-income ratio for renters as a group is .32, while the figure for homeowners is 1.54. For debt-to-net worth, the ratio is .35 for renters and .61 for homeowners. This is largely attributable to the

fact that most young adult homeowners have mortgage debt, however. The debt-to-income ratio sans mortgage debt is 0.274 for the homeowner group, while the debt-to-net worth ratio sans mortgage debt is 0.109.

VI. Troubled Households

As noted in previous sections, the comparisons of young adults' average holdings and rates of indebtedness to the population at large and to young adults of the past do not indicate that today's young adults are in a unique or precarious situation as a group.¹⁸ Yet, the analysis discussed in earlier sections also indicates that there is variation within the young adult group, with some households bearing greater debt burdens than others. This section develops ways to identify households whose credit market activity might be considered troublesome. Because viewing debt levels or borrowing behavior in isolation may not provide an accurate picture of the extent to which debt poses a problem for some young adults, the section asks not whether debt per se is a problem, but whether there are young adults whose overall financial position is weak.

Defining at risk households

To identify households who are financially at risk, we first examine debt-to-income ratios for individual households. The group-wide average of 1.11 reported in Table 4 allows one to compare young adults to the U.S. population at large, and to determine how fast debt has grown relative to income for the group over time; however, it does not indicate how many young adults have debt loads that vastly exceed their income, which is one measure one might use to determine whether a household is mired in debt. Accordingly, we also constructed household-level debt-to-income measures. For this analysis, young adults with zero income were coded as having one dollar of income so that a finite debt-to-income ratio could be computed.¹⁹ Analyses of these data reveal that at the tenth percentile, the debt-to-income ratio is zero.²⁰ Moreover, for 20 percent of all young adult households the amount of debt held represents less than four percent of their income; and 25 percent of young adults have debt-to-income ratios below 0.10 (or 10 percent). At the 30th percentile, the amount of debt held begins to approach one-fifth of household income: The debt-to-income ratio is 0.175. Household debt-to-income ratios begin to rise more quickly around this point. The household at the 40th percentile has a debt-to-income ratio of 0.367. The median household has a debt-to-income ratio of 0.631; and the household at the 60th percentile would need almost 95 percent of its current income to retire its existing debt. The debt-to-income ratio at the 70th percentile is 1.37, implying that debt exceeds income by 37 percent. At the 80th percentile the debt-to-income ratio is 1.84, making debt equivalent to almost twice the household's income. At the 90th percentile, the debt-to-income ratio is 2.55; and about 1 percent of young adult households have a total debt load that is more than 7 times their income.

We also asked what fraction of young adults has a debt level that is too large to be paid off with the household's existing stock of savings. It is savings that individuals typically turn to when their income flow stops, accordingly one can argue that young adults who do not have sufficient savings to pay off or to continue to service their debt regularly represent at-risk cases. There are several ways that one might measure the household's total available savings. The most appropriate measure here is the value of total assets held, since a household has an option to liquidate all its assets in order to pay off its existing debt. Our analysis indicates that about 15 percent of young adults would not be able to pay off their existing debt obligations with their

assets if they were suddenly thrust in a situation in which they had no income flowing into the household (See Table 9).

Because most households hold debt that is financed over a number of periods, it is also appropriate to ask what proportion of young adult households would be at risk of having difficulty making monthly payment obligations on their outstanding debt if they were to experience a bout of job loss. To answer this question we borrow Haveman and Wolff's "asset poor" concept and apply it to the total monthly debt payments of young adult households. Haveman and Wolff (2004) characterize households as asset poor if their existing stock of net worth is too low to allow them to sustain a minimum level of consumption for more than three months when they have no income flowing into the household. In our analysis we asked what percentage of households are in a situation in which their current stock of savings would be exhausted by monthly payment obligations on outstanding debt in just under three months. We use three different measures of savings for the analysis. As in Haveman and Wolff (2004), we construct the first measure (asset poor-1) using net worth to measure of household savings. However, because liquidating any assets that were financed with debt is one way to reduce one's liabilities, we also construct a measure that uses total assets to gauge household savings (asset poor-2). Finally, we compare each household's monthly payment obligations to the value of its financial assets (asset poor-3). We do this because many households may not wish to sell their homes, vehicles, and other physical assets in order to pay their bills, as they remain likely to require a place to live and a source of transportation even if they are unemployed.

As shown in Table 9, when using net worth to measure savings, we find that 16.5 percent of young adults are "asset poor." The proportion of households whose situations are troublesome is lower, however, when one uses total assets to measure available savings. However, if one restricts the analysis to the assets that households hold that are highly liquid (their financial assets, such as funds held in the form of cash, bank accounts, and stocks), we find that about 17.5 percent of young adults could not meet three months worth of their existing debt repayment obligations with their current stock of savings. It is worth noting that Caner and Wolff (2004) find that about 44 percent of young households age 25-34 have net worth that is insufficient to allow them to maintain a poverty level of consumption for at least three months. (The figure actually rises--to 65 percent--when the authors exclude home equity from the measure of savings.) The Caner and Wolff (2004) data are instructive because our measures of "asset poverty" only consider young adults' need to meet repayment obligations on existing debt. In practice, a disruption to one's income flow means that one has to finance consumption from one's existing stock of savings as well.

Table 9 also reveals that about 8.5 percent of young adults actually have no financial assets. Additionally, the average amount of debt held by young adult households with negative or zero net worth is about \$24,762, and the average total monthly repayment obligation is \$381.

Does debt interfere with some young adults' transitions into adulthood?

Is debt troublesome enough to prevent some young adults from marrying, buying a home and starting a family? If debt has this effect, one expects comparisons of debt levels between those who have achieved these life milestones and those who have not to reveal that starting liabilities were lower for individuals who completed the transitions, and one expects regression analysis to uncover a negative association between indebtedness and the probability of marrying and becoming a homeowner or a parent. We examine data from the Panel Study of Income Dynamics (PSID) to identify households who transitioned into marriage, home ownership, and

parenthood between 1994 and 1999.²¹ We analyze five different measures of indebtedness--having credit card and other non-collateralized debt, the amount of credit card and non-collateralized debt held, having mortgage debt and the amount of this type of debt held, and having negative net worth, in order to compare initial balances (in 1994) of the transitioners and non-transitioners. As shown in Table 10, the comparisons provide mixed results. There are statistically significant differences in mean values for some debt measures, such as the incidence of credit card debt, but not for others. Moreover, the data suggest a positive association between having debt and successfully completing a transition where differences in means are statistically significant. (In examining similar data for the 1980s, we found even more varied results. The percent of young adults with negative net worth was higher among those who failed to marry and those who did not become homeowners. However when measuring indebtedness with mortgage debt, it was positively associated with the transition into parenthood. Elsewhere there were no statistically significant differences between the two groups in the 1980s analyses.)

When examining the association between debt and transitions into the three states while controlling for other measures, we also fail to find strong, consistent, evidence to suggest that debt depresses the transition into adulthood. As shown in the table, our analysis found that only one variable that was statistically significant in the initial comparison of means remained statistically significant in a regression. The marginal effect of mortgage debt levels is positive in the probit regression explaining the transition into marriage: A \$10,000 increase in mortgage debt can be expected to raise the probability of marrying by about 1.86%. However, the regression analysis also indicates that the amount of credit card debt held does affect the transition into homeownership. A \$10,000 increase in credit card debt depressed the probability of becoming a homeowner by about 4.2%. We also find that bankruptcy is negatively associated with the probability of becoming a homeowner. Having been bankrupt reduces the probability of transitioning into homeownership by about 17 percent (result not shown). Both results are consistent with the general findings in the literature on homeownership, which notes that banks consider a household's existing debt position and its past history when making decisions about whether to accept or deny a loan application.

VII. Conclusions

This paper has examined the debt profiles of today's young adults—what their debt burdens look like, and how they compare to those of other households in the nation and to young adults from previous generations. Somewhat surprisingly, we find little to suggest that today's young adults have an unusually fragile or problematic relationship to credit markets as a group. In fact, the relationship that young adults have with credit markets and debt does not appear remarkably different from that of other families in the nation, or from young adults of the past. The analysis does reveal that there are some young adult households whose situations are troublesome, however. These are certainly households about whom policymakers might want to be concerned. This study also finds that there are several interesting debates surrounding the debt that young adults have that policymakers and scholars have yet to resolve.

Table 1. Percent of young adult households holding different types (or categories) of debt

Debt category	2001		1983	1963
	% of young adults holding	% of all families (for comparison)	% of young adults holding	% of young adults holding
<i>Any debt</i>	85.0	75.1	83.2	85.0
<i>Broad categories reported in the 2001 SCF</i>				
Mortgage debt	43.6	44.6	39.3	36.88
Other residential debt	3.3	4.7		1.6
"other" lines of credit	1.7	1.5	15.1	n.a
credit card debt	51.0	44.4	42.8	n.a
installment debt	65.1	45.2	62.9	71.8
"other" debt	9.4	7.2	18.8	41.9
<i>Debt by purpose of loan</i>				
Auto debt	49.5	36.4	38.9	45.1
Educational debt	29.0	14.6	11.1	n.a
<i>Asset ownership rates</i>				
Home ownership	48.4	67.7	45.27	
Car ownership	81.4	84.8	86.45	80

Notes: For column 1, author's independent analysis of 2001 SCF data. For column 2, Aizcorbe, Kennickell, and Moore for rows 1-7 and 10-11 (2003, pp. 16, 17 and 23); and author's own calculations using 2001 SCF data for auto debt and educational debt. For column 3, author's independent analysis of 1983 SCF data, with some of debt categories reported in the 1983 survey reconfigured to match the 2001 debt categories. For column 4, rows 1-7 reflect author's analysis of data from the 1963 Survey of Financial Characteristics of Consumers (SFCC). Row 11 of column 4 comes from the 1966 edition of *Statistical Abstract of the United States*. All data, from all surveys and all survey years, are weighted.

Table 2. Young adult debt by category or type of debt

Variable	2001		1983	1963
	Mean [median]	Conditional median	Mean [median]	Mean [median]
total debt	\$55,616 [\$25,000]	\$39,000	\$32,610 [\$8,168.42]	\$26,562.38 [\$1,543.00]
Broad debt categories				
Mortgage debt	\$41,054 [\$0]	\$80,000	\$22,233.23 [\$0]	\$20,579.50 [\$0]
other lines of credit	\$79 [\$0]	\$480	\$427.52 [\$0]	na
Other residential debt	\$2,056 [0]	\$50,000	\$4,155.71 [\$0]	\$981.14 [\$0]
credit card balances	\$2,246 [\$70]	\$2,400	\$638.45 [\$0]	na
installment debt	\$9,640 [\$3,800]	\$10,100	\$5,134.13 [\$650]	\$4,446.99 [\$315]
other debt	\$540 [0]	\$2,100	\$1,14.51 [\$0]	\$1,535.96 [\$0]
Debt by purpose of loan				
Auto debt	\$5,495 [0]	\$9,000	\$2,448.07 [\$0]	\$2,978.87 [\$0]
Education loans	\$3,478 [0]	\$6,800	\$659.95 [\$0]	na

Notes: Author's analysis of data from the 2001 and 1983 SCF, and the 1963 SFCC. All values are in 2001 dollars. All data are weighted.

Table 3. Young adult debt type as share of total debt outstanding--various years

	2001	All U.S. families in 2001	1983	1963
Broad debt categories				
Mortgage debt	73.8%	75.1%	68.2%	77.5%
other residential debt	3.7%	6.4%	12.7%	3.7%
other lines of credit	0.14%	0.5%	1.3%	na
credit card balances	4.0%	3.4%	2.0%	na
installment debt	17.3%	12.3%	15.7%	16.7%
other debt	1.0%	2.3%	3.4%	5.9%
Debt by purpose of loan				
Auto debt	9.9%	7.8%	7.5%	11.2%
Educational debt	6.3%	3.1%	2.0%	Na

Notes: For column 1, author's analysis of data from the 2001 SCF. For column 2, data are from Tables 10 and 12 of Aizcorbe, et al (2003:21 and 23). For column 3, author's analysis of data from the 1983 SCF. For column 4, author's analysis of data from the 1963 SFCC. All data cover young adults age 25 to 34 unless otherwise noted. All data are weighted.

Table 4. Overall financial condition of young adult households--Measures of financial health

	Today's young adults	All U.S. households	Young adults in 1983	Young adults in 1963
Total debt	\$55,616 [\$25,000]	\$54,514 [\$14,300]	\$32,610 [\$8,168]	\$26,562 [\$1,543]
Total assets	\$153,125 [\$58,750]	\$450,341 \$135,800	\$91,695.45 [\$15,838]	Na
Net worth	\$97,509 [\$19,045]	\$395,500 [\$86,100]	\$73,138 [\$19,505]	\$46,929.40 [\$7,909]
Family income	\$50,109 [\$39,061]	\$68,000 [\$39,900]	\$41,089 [\$36,800]	\$36,261.9 [\$34,068]
Debt-to-net worth ratio for group	0.57	0.138	0.491	0.566
Debt-to- income ratio for group	1.11	0.789	0.66	0.733
Debt payment-to-income ratio	0.19	0.125	n.a	n.a
Net worth less than zero (%)	0.1514	0.68	0.102	0.109
% late making payments	11%	7%	30.7% [#]	Na
Financial distress rate	9.3%	11%	na	Na
Ever bankrupt (%)	7.7%	10.0%	na	Na

Notes: All data are expressed in 2001 dollars. Median values are in parenthesis. Data for row 2, columns 2,3,6,8 and 9 are taken from Aizcorbe et al (2003, pp. 5, 7, 28, and 29). Data for all U.S. households in all other cells of row 2 come from author's own analysis of SCF data. Columns 4 and 5 are debt as a share of net worth or income in the aggregate (for the relevant group). [#]Late payment rates are not exactly comparable across time. The 2001 survey asks about being late by at least 60 days (roughly two months), while the 1983 survey simply asks about payments that were late (no time period mentioned) or missed. Total asset values for 1963 are not available due to lack of comparability across surveys.²²

Table 5. Distribution of young adult debt by quintile—means, medians, total debt, and share of young adult debt held at different points along the debt distribution (2001 data)

Debt quintile	Average amount of debt held	Median	Share of total young adult debt held
1	\$90.09	\$0	0.03%
2	\$5,288.47	\$5,160	1.93%
3	\$25,751.54	\$24,800	9.41%
4	\$72,036.06	\$72,000	25.8%
5	\$174,071.60	\$138,400	62.8%

Notes: Author's calculations based on data from the 2001 SCF. All data are weighted. Data in column 4 may not sum to 100 due to rounding error.

Table 6. Total debt and borrowing patterns of indebted young adults--in 2001 dollars

	2001	1983	1963
Variable	Mean	Mean	Mean
total debt	\$65,364 [\$39,000]	\$39,203.29 [19,060.24]	\$31,052.81 [12,159]
Broad debt Categories			
Mortgage debt	\$48,250 [\$6,000]	\$26,728.46 [\$0]	\$24,053.86 [\$0]
Other residential debt	\$2,416.47 [\$0]	\$4,995.93 [\$0]	\$1,147.00 [\$0]
Other lines of credit	\$92.57 [\$0]	\$513.96 [\$0]	Na
Credit card balances	\$2,639.72 [\$400]	\$767.54 [\$53.40]	Na
installment debt	\$11,330.73 [\$6,100]	\$6,172.17 [\$2,492.00]	\$5,198.61 [\$3,184.50]
Other debt	\$634.92 [\$0]	\$1,339.84 [\$0]	\$1,795.65 [\$0]
Auto debt	\$6,457.61 [\$2,180]	\$2,943.03 [\$0]	Na
Education loans	\$4,087.67 [\$0]	\$793.38 [\$0]	Na
Measures of financial health			
Net worth	\$108,176.95	\$79,886.40	\$47,946
Income	\$54,085.31	\$45,679.58	\$37,665.28
Debt to net worth ratio	.604	.491	.648
Debt to income ratio	1.209	.858	.824
% with negative net worth	17.9	12.3	11.4

Notes: Sample is households for which total debt >0. Median values in parenthesis. Data are weighted.

Table 7. Young adult debt by income quintile in 2001--mean and median dollar values

	Bottom quintile	2 nd quintile	Middle quintile	4 th quintile	Top Quintile
Total debt	13,219.62 [810]	21,963.86 [7,400]	45,295.35 [26,560]	76,699.59 [64,280]	157,346.83 [118,700]
The Six Broad SCF Categories					
Mortgage debt	7,485.98 [0]	11,180.14 [0]	29,884.73 [0]	57,505.73 [42,000]	133,023.16 [100,000]
Other lines of credit	295.38 [0]	7.59 [0]	31.19 [0]	0 [0]	122.82 [0]
Other residential debt	0 [0]	961.85 [0]	1,674.36 [0]	2,920.32 [0]	6,079.82 [0]
Credit card balances	809.97 [0]	1,558.66 [0]	3,129.20 [1,100]	2,955.68 [400]	2,757.25 [0]
Installment debt	4,380.02 [0]	7,397.10 [2,000]	10,072.80 [6,000]	13,020.47 [9,000]	14,521.43 [9,900]
Other debt	248.27 [0]	858.53 [0]	503.08 [0]	297.40 [0]	842.35 [0]
Additional debt categories					
Vehicle loans	1,082.92 [0]	3,668.05 [0]	5,702.72 [2,000]	8,382.56 [5,000]	9,661.01 [7,700]
Education loans	2,190.24 [0]	3,244.75 [0]	3,590.58 [0]	4,517.96 [0]	3,728.07 [0]
Proportion of families holding the different debt types					
% with mortgage debt	15.9	20.4	44.5	64.8	86.4
% with other lines of credit	2.4	1.5	2.9	0	1.6
% with other residential debt	0	1.9	4.1	3.4	9.1
% with credit card balances	31.2	49.5	67.2	58.7	40.3
% with installment debt	41.4	62.2	70.7	76.9	73.5
% with other debt	8.2	9.7	9.9	9.5	9.8
Burden or hardship measures					
Total monthly payment	196.54 [3.19]	346.09 [233.47]	662.20 [570.00]	1,011.64 [985.27]	1,819.58 [1,657.22]

Debt-to-income ratio for group	1.22	.84	1.07	1.17	1.16
Debt-to-net worth ratio for group	0.54	0.75	0.73	0.80	0.41
Household-level debt to income ratio (mean)	1.53	0.86	1.07	1.17	1.28
Percent of households in financial distress	18.2%	10.7%	9.5%	5.1%	1.5%
<i>N</i>	574	772	692	613	442

Notes: All data are weighted. Median values in parenthesis. Dollar values are expressed in 2001 dollars.

Table 8. Young adult debt by education—2001 means for less than high school, high school grads, some college, and college grads

<i>Variable</i>	<i>No high school degree</i>	<i>High school graduates</i>	<i>Some college</i>	<i>College or more</i>
Total debt	\$32,660.88 [\$6,830]	\$37,718.22 [\$13,000]	\$47,422.55 [\$25,110]	\$90,315.42 [\$50,000]
Mortgage debt	\$26,725.39 [\$0]	\$25,558.39 [\$0]	\$33,143.38 [\$0]	\$69,087.12 [\$20,000]
Education loans	\$552.43 [\$0]	\$1,258.95 [\$0]	\$3,347.28 [\$0]	\$7,064.17 [\$0]
Percent with mortgage debt	38.5%	37.34%	42.3%	52.8%
Percent with other lines of credit	0%	1.6%	3.9%	0.7%
Percent with other residential debt	0.7%	3.9%	0.8%	6.2%
Percent with credit card debt	27.3%	52.0%	62.2%	52.2%
Percent with installment debt	46.5%	64.2%	71.1%	69.8%
Percent with other debt	11.4%	14.2%	6.5%	6.5%
Total monthly payments	\$439.04 [\$222]	\$574.19 [\$350]	\$692.75 [\$561.11]	\$1,054.23 [\$754.72]
Debt-to-net worth ratio for group	1.11	.98	1.07	1.19
Debt-to-income ratio for group	1.05	.84	.76	.43
Mean household-level debt to income measure [median value]	.97 [.250]	1.21 [.4554]	.994 [.663]	1.318 [.995]
Percent of households experiencing financial distress	9.4%	13.6%	7.3%	7.1%

Notes: All data are weighted. Median values are in parenthesis.

Table 9. Young adult households that are financially at risk--2001

Panel A--Measures of risk	Percent of young adult households at risk
Percent of young adult households whose debt exceeds the value of their assets	15.1%
Asset poor-1	16.5%
Asset poor-2	1.1%
Asset poor-3	17.5%
Households with no wealth	19.2%
Households with no financial assets	8.5%
Panel B--Indebtedness among young adult households with no wealth	Value
Total debt outstanding (mean)	\$24,761.66
Total debt outstanding (median)	\$14,650
Total monthly debt payments (mean)	\$381.45
Total monthly debt payments (median)	\$300

Notes: Households with no wealth are those for whom net worth is zero or negative. All data are weighted.

Table 10. Debt and transition into marriage, parenthood, and homeownership--1994 to 1999

	<i>Non-transitioners</i>	<i>Transitioners</i>	<i>Comparison of mean values</i>	<i>Regression results--estimated marginal effect of debt on the transition variable</i>
Transition into marriage				
% with credit card and other non-collateralized debt in 1994**	56.0%**	72.4%**	Transitioners are the most indebted group	6.9% but not statistically significant
Amount of credit card and non-collateralized debt in 1994 (mean)	\$6,106.86	\$6,299.02		-5.42 x 10 ⁻⁷ % but not statistically significant
Mortgage debt level in 1994 (mean)	\$7,513.48**	\$31,031.06**	Transitioners are the most indebted group	1.86 x 10 ⁻⁶ % **
% with negative networth in 1994	20.3%	23.1%		2.6% but not statistically significant
Transition into parenthood				
% with credit card and other non-collateralized debt in 1994*	61.2%*	70.4%*	Transitioners are the most indebted group	0.7% but not statistically significant
Amount of credit card and non-collateralized debt in 1994 (mean)	\$7,001.46	\$8,062.43		-7.78 x 10 ⁻⁷ % but not statistically significant
Mortgage debt level in 1994 ** (mean)	\$16,322.99*	\$43,819.58**	Transitioners are the most indebted group	9.89 x 10 ⁻⁷ % but not statistically significant
% with negative net worth in 1994	17.9%	18.3%		2.9% but not statistically significant
Transition into homeownership				
% with credit card and other non-collateralized debt in 1994*	55.5%**	65.9%**	Transitioners are the most indebted group	-3.2% but not statistically significant
Amount of credit card and non-collateralized debt in 1994	\$6,839.50	\$7,812.82		-4.24 x 10 ⁻⁶ % **
% with negative net worth in 1994	22.7%	28.5%		-2.4% but not statistically significant

**Statistically significant at .10 level at least. *Marginally significant. p=.112 for difference in rates of credit card ownership among those who did and did not transition into parenthood. All dollar values were in 2001 dollars. Net worth measures use are for net worth including home equity. Descriptive statistics are for 25 to 34 year olds, with N = 354 for the transition into marriage analysis; N = 429 for the parenthood transitions analysis; N=569 for the homeownership transitions analysis. Regression results reported are the marginal effects from probit regressions estimated on a sample of 18 to 34 year olds. Regressions for marriage include controls for age, the presence of children in the household, and family income. Regressions for parenthood include controls for age, family

income and marital status. Regressions for homeownership include controls for age, age-squared, presence of children, sex, education, family income, and race.

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¹ At the time that this paper was written, the 2004 SCF data were not available.

² The "mortgage" debt category is really a "housing" or "home-secured debt category." It largely comprises home mortgages (on a household's principal residence), but also includes home equity loans and home equity lines of credit. The third category includes land contracts, mortgage debt for residential property other than the principal residence, such as vacation homes, and installment debt for cottages or vacation homes. The fifth category (installment debt) represents consumer loans with fixed terms and fixed payment periods, such as automobile loans, student loans, and loans for furniture or other household durable goods. Category six ("other" debt) includes loans against pensions, loans against life insurance, margin loans and other, miscellaneous debt.

³ For additional discussion of the changing nature of schooling in the transition to adulthood see Fusternberg et al, 2004; and Fitzpatrick and Turner 2006.

⁴ This may be particularly true, according to theories of behavioral economics, because housing is relatively illiquid, thereby allowing a household to "precommit" to saving in a form that might force it to adhere to a saving plan (Laibson, 1997 and 1998).

⁵ The 2001 SCF allows households to identify nine reasons for borrowing. Each household's debt is then classified according to amounts undertaken for (1) the purpose of making a home purchase (including cottages and vacation property), (2) home improvement loans, (3) vehicle loans, (4) loans for purchases of goods and services generally defined, (5) loans for investment purposes, (6) loans for education, (7) mortgage loans for real estate other than that mentioned already, (8) unclassified borrowing against pensions, and (9) other unclassifiable loans.

⁶ Notes: (1) The SFCC is the precursor to the modern Survey of Consumer Finances. For a discussion of the evolution of the SCF and of the contents of the SFCC see Kennickell (2000) and Projector and Weiss (1966). (2) The 2001 SCF, the 1983 SCF, and the 1963 SFCC each report families' liabilities differently. We reclassify the data from the latter two years to create debt categories that are similar to those in the 2001 SCF whenever possible. (3) All dollar values have been converted to 2001 dollars.

⁷ Data from the Current Population Survey indicate that the fraction of individuals age 25-34 completing at least four years of college rose from 12.9 percent in 1962, to 24.41 percent in 1983, to 29.65 in 2001.

⁸ In an uncertain world a decision to acquire debt that is rational at the time that the debt is undertaken can easily pose problems at a later date. For example, an individual who is employed as a surgeon might make a decision to buy a home and to borrow in order to do so. If she breaks her hand two years later and loses her job because she is no longer able to perform surgery, the debt load could turn burdensome.

⁹ Our 9.3 percent figure for 25 to 34 year olds is lower than that reported in Draut and Silva (2004), where the authors write that about 13 percent of 25 to 34 year olds experience debt hardship. Draut and Silva (2004) restrict their analysis to indebted households though, rather than examining all young adults.

¹⁰ As noted by Draut (2006) and Draut and Silva (2004), if one restricts the analysis to young adults who have credit card debt, the mean or average amount held is over \$4,000. Because our paper aims to characterize the situation of young adults generally, we focus on the average and median balances for young adults as a group, and for the 85 percent of young adults who hold some form of debt. We do not narrow the focus to the subset of young adults that holds credit

card debt. What group represents the proper reference point depends on the questions one wants to ask. Our interest is in young adults as a whole, not credit card users per se.

¹¹ About 18 percent of young adult households have incomes that place them among the poorest 20 percent of U.S. households; 24 percent fall in the second lowest income quintile, 23 percent are middle income households; another 23 percent are in the fourth highest income quintile, while only 13 percent of young adults have incomes that are high enough to place them in the top quintile of U.S. households.

¹² Here we ignore the patterns for other lines of credit as the magnitudes held are not large throughout most of the distribution and the percentage of young adults holding this form of debt is very small.

¹³ Sample size limitations due to low rates of ownership for other types of debt prevent us from drawing conclusions about differences across educational levels for any of the other broad SCF debt categories.

¹⁴ Our figure is much lower than the \$19,300 reported in Draut (2006:94-95). Draut's data come from studies of recent graduates, and therefore reflect the amounts held by young adults as they are exiting college. Because our analysis covers young adults later in life, it is possible that some of the discrepancy is explained by our young adults' having had time to pay some of their outstanding student debt down. A study of National Center for Education Statistics data suggests that the discrepancy also could be due to lower starting balances for our cohort of young adults (Choy and Li, 2005:iv). These authors find mean balances held by exiting seniors rose from \$12,826 to \$20,458 (in 2001 dollars) between 1993 and 2000.

¹⁵ While the SCF data allow one to disaggregate the non-white category, the sample sizes for the individual components are too small to analyze most subgroups individually with any reliability.

¹⁶ Eighty-six percent of white young adults own cars; 70.5 percent of non-whites do (2001 SCF).

¹⁷ This one percent difference in values is not statistically significant.

¹⁸ Moreover, when one examines young adult households as a group, their share of the nation's total debt is about 17.5%, which is similar to the group's population share (17.1%), suggesting that they do not shoulder an unusually large portion of the nation's debt.

¹⁹ It is standard for researchers to construct debt-to-income and debt-to-net worth ratios that divide the total debt held by a group of individuals by the group income or group net worth and such aggregate-level measures are informative. However, because these represent group-wide information they may obscure the position of individual households whose debt vastly exceeds their income or wealth.

²⁰ The corresponding table is contained in an appendix available from the author upon request.

²¹ The PSID is a widely-used, nationally representative survey that follows families over time. While it offers a more limited set of debt measures than the SCF does, and combines credit card debt and other forms of non-collateralized debt into a single category, because the SCF is not a panel dataset it is not possible to use it to examine households who changed their characteristics over time by becoming homeowners, or parents, or married, however. The analyses discussed above rely primarily on data from the 1994 and 1999 waves of the PSID, as the regressions relate indebtedness in 1994 to outcomes attained in 1999. Tables are in an appendix that is available from the author upon request.

²² The SFCC did not use market valuation methods for all assets for which data were collected. Some values are reported as par values, making it difficult to add up across assets, and the survey does not contain a total asset measure.