Housing Wealth and Higher Education: Building a Foundation for Economic Mobility

A college degree often translates into economic success: Americans who start at the bottom of the income ladder ***quadruple*** their chances of making it to the top when they earn a four-year degree, according to past research by the Pew Economic Mobility Project. Nevertheless, many young people from the bottom and middle of the ladder never enroll in some form of postsecondary education, or do not graduate if they do. The question is, why?

There are two primary explanations at the individual level: college costs and academic preparation. These two drivers are not mutually exclusive. Families who have less money to send their children to college also have fewer resources to invest in pre-college education. Many external factors outside of a family's control also influence postsecondary decisions. For example, students consider the availability of jobs and financial aid when deciding whether to pursue higher education.

In a time of increased financial hardship, however, it is important to better understand how family wealth, independent of other factors, affects students' decisions about higher education. The purpose of this study, ***Housing Wealth and Higher Education: Building a Foundation for Economic Mobility***, was to develop an economic model that isolates the impact that family wealth has on college choices.

The recent housing boom and bust provided a unique opportunity to conduct this research. When housing prices were on a seemingly endless upward climb, many families experienced historically large wealth gains. When housing prices crashed, the wealth of many households evaporated. Because housing has been the primary source of wealth for most low- and middle-income families, changes in home equity have a significant influence on total family assets.

Since the boom occurred in different locations at different times, the author was able to develop a model that used variation in home equity as a natural experiment.[1] The model investigates whether changes in family wealth, as represented by gains in home equity, affected college decisions.

[1] An estimate of the four-year change in home value when each respondent is in high school was used to measure the change in housing wealth experienced. Home equity was calculated from the self-reported home value and remaining principal balance in the Panel Study of Income Dynamics.

The approach controls for a range of time-related, geographic, and individual and family background factors that might also contribute to postsecondary choices so that the relationship between housing wealth and college enrollment, selection, and completion rates alone can be estimated.[2]

Housing Wealth and Higher Education: Building a Foundation for Economic Mobility demonstrates that higher education decisions are highly sensitive to fluctuations in family resources. The model shows that low- and middle-income students whose families experienced increases in housing wealth just before reaching college age were more likely to attend college, more likely to attend higher-quality universities, and more likely to graduate.

The report's key findings include:

Students from low- and middle-income families were much more likely to enroll in college when their families experienced gains in housing wealth.

- For every $10,000 of home equity gains, the likelihood of enrolling in college increased by 6 percentage points among families with incomes below $70,000.
- The wealth generated by rising home values is estimated to have increased college enrollment by 24 percent among low- and middle-income families during the housing boom. Without gains in home equity, just 37 percent of these families' children would have enrolled, rather than 46 percent.
- There is little evidence that wealth gains affected college enrollment among families with incomes of $70,000 or more, or that they affected families of any income in earlier decades when housing equity was less liquid.

Students from low- and middle-income families were more likely to select higher-quality schools, and were more likely to graduate with a four-year degree, when their families experienced gains in housing wealth.

- Among students coming from families earning less than $70,000 a year, the housing boom increased enrollment in four-year public flagship schools by 24 percent and reduced enrollment in community colleges by 17 percent.[3]
- Increased housing wealth raised the likelihood of college graduation by 9 percent, compared to what it would have been without the housing boom, among low- and middle-income students, lifting it to 32 percent.

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[2] For full methodological details, please see the data and methods sections and the appendix explaining the research strategy.

[3] Flagship public universities are each state's elite public institution. In the case of California, Texas and New York, there are multiple flagships.

This analysis suggests that the recent housing bust and resulting decrease in wealth could negatively impact the postsecondary decisions of low- and middle-income families.

- Home equity is estimated to have declined by 54 percent between 2006 and 2010 for homeowners with income less than $70,000 per year.
- Absent other changes in the economy that affect college decisions, the report suggests that the decrease in housing wealth alone would have reduced college enrollment for students from these families by 30 percent. It also would have decreased enrollment in four-year public flagship schools by 26 percent and increased community college attendance by 29 percent among college-goers from these families.[4]
- Similarly, absent other changes in the economy, the housing bust alone would have reduced four-year college graduation rates by 12 percent for students from families making less than $70,000 a year.

[4] Because of the overall deterioration of the economy in the same time period, particularly the combination of a faltering job market and more generous federal financial aid, these effects were countered substantially and limited the decline in college-going.