Impact of Homeownership Status and Debt on Financial Satisfaction Among Young Adults

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Today, the rising costs of housing prices and associated costs (e.g., utility rates, insurance, etc.) make it difficult for young adults to find affordable housing (Bahney, 2022; Statista Research Department, 2022) and leave many young adults feeling dissatisfied with their financial situations. This financial dissatisfaction may be exacerbated by having wait many years before they achieve dreams of homeownership. Homeownership is an important way to build wealth and security. Beyond the opportunity to build equity, there is also a sense of pride, stability, and emotional satisfaction that comes when individuals can choose what they want their environment to be through homeownership. Individuals are more willing to take care of things they own and care about the communities in which they own the home (Rohe et al., 2013).

High levels of debt are another barrier to homeownership. As of the end of the second quarter of 2022, mortgage, credit card, automobile, and student loan debt have reached $11.39 trillion, $0.89 trillion, $1.50 trillion, and $1.59 trillion, respectively in the United States (Federal Reserve Bank of New York, 2022). Along with student loan debt, credit card debt, or automobile debt, many young adults could be challenged by ongoing regular bills (Cherney et al., 2020; Lee et al., 2019; Letkiewicz & Heckman, 2018). Additionally, the high inflation rate, such as 8.5% in December 2021, could add further financial stress on American families (Picchi, 2021). Together, high rates of debt and increasing inflation rates could make it more difficult for young adults to become homeowners. Indeed, few young adults are or are on track to become homeowners at the same age that their parents or grandparents did (Choi et al., 2018; McKee, 2012).

Little research has focused specifically on how homeownership status and debt of young adults are associated with their financial satisfaction. Given the rapidly changing economic landscape, it is important to examine differences in financial satisfaction among young adults based on their age (i.e., separating the young-young from the young-old). In particular, understanding the differences in the impact of homeownership status and debt on financial satisfaction among the two age groups will provide meaningful insights for the future well-being of younger generations. Further, the findings of this study could have important implications for consumer educators and policymakers in formulating their housing and consumer laws and policies.

This study employed data from the 2021 Investor Education Foundation's National Financial Capability Study (NFCS) to explore the associations between homeownership status, types of debt, and financial satisfaction among young adults aged 18-40. For the purpose of this study, we excluded those who did not answer the survey questions related to our three research questions: 1) How are various types of debt (i.e., credit card, auto loan, student loan, medical debt) associated with homeownership status among young adults? 2) How do homeownership status and types of debt impact financial satisfaction of young adults? 3) How does the "young-young" group differ from the "young-old" group in terms of the associations between homeownership status, debt, and financial satisfaction?

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The study sample included 2,147 young adults which consisted of young-young (age 18-29, *n*= 821) and young-old (age 30-40, *n*= 1,326) groups. In particular, we created four homeownership status groups: renters, homeowners with mortgage and home equity loans (homeowner group 1), homeowners with a mortgage (homeowner group 2), and homeowners without a mortgage (homeowner group 3). In this study, as types of debt, we included credit card, automobile, student loan, and medical debt. We conducted a multinomial logistic regression analysis to investigate predictors of belonging in the four homeownership status groups: renters (reference group), homeowner group 1, homeowner group 2, and homeowner group 3. To examine the impact of homeownership status and debt on financial satisfaction among young adults, we performed an Ordinary Least Square (OLS) regression analysis for the total sample. We also conducted OLS regression analyses to investigate how the associations between homeownership status, debt, and financial satisfaction differ between the two sub-samples (age 18-29 & age 30-40).

The findings of this study suggest that the young adults aged 18-29 were less likely to own a home with a mortgage than the young adults aged 30-40, which is consistent with the average age of first-time homeownership in the US being 33 as of 2022 (Caginalp & De Vita, 2022). The multinomial regression results show that credit card debt, automobile debt, student loans, and medical debt all were positively associated with the likelihood of being homeowners with a mortgage and home equity loan (homeowner group 1). This finding suggests that having any type of debt was associated with an increased likelihood of holding both a mortgage and a home equity loan; this may result in a very heavy debt burden, which may lead to homeowner group 1 struggling more financially than the other homeowner groups. The multinomial results also show that both subjective and objective financial knowledge is important for predicting homeownership status among young adults. Specifically, higher level of financial knowledge was associated with a decreased likelihood of being a renter and an increased likelihood of being a homeowner with a mortgage.

In terms of the association between homeownership status and financial satisfaction, the OLS regression results show that renters reported lower levels of financial satisfaction among the both young-young (ages 18-29) and young-old (ages 30-40) than homeowners. This finding suggests that homeownership status is important not only for wealth building, but for the emotional well-being or financial satisfaction of young adults. Further, as for the impact of debt type on financial satisfaction across two age groups, student loan debt was significantly associated with higher levels of financial satisfaction for the “young-young” group, whereas credit card debt was significantly associated with lower levels of financial satisfaction for the “young-old” group.

The findings of this study imply that homeownership, in particular, owning a home (regardless of whether they held housing-related debt) was a significant predictor of financial satisfaction among young-old adults (ages 30-40). Young people may feel pressure to follow a specific timeline for achieving financial goals such as owning a home and may be dissatisfied when they are not keeping up with the timeline their parents met or their peers are following. In working with young adults who may be struggling with these ideas, it would be good to remind them of the work it took for those older generations to achieve homeownership, while still accounting for the current challenges that the younger generations are facing that older generations did not face. With sufficient consumer financial education, the younger generation can be guided in how to set realistic, yet achievable homeownership goals (Choi et al., 2018). Further, we note the important role of government programs and policies in helping young adults become homeowners (Cribb & Simpson, 2018). For example, government-sponsored first-time homebuyer down-payment support programs provide an extremely valuable resource for young adults (Bai et al., 2015). However, high interest and mortgage rates are decreasing payment affordability for many consumers (Pickert, 2021).

Finally, the findings of this study demonstrate the importance of financial literacy for young adults. Teaching young adults how to build good credit and helping them distinguish bad debt from good debt, while avoiding high levels of debt and debt stress, is important for enhancing their future well-being. Financial counselors can help young people understand how different kinds of debt will affect their ability to buy a home. It would be wise for young people who want to buy homes to talk to housing counselors long before they plan to buy to ensure that they get the best rates and are entering into mortgages that do not complicate their debt any further. However, there are significant barriers to getting individuals to attend financial education courses; thus, research is needed on how to attract individuals to these programs before they are ready to purchase their first home. Financial counselors and consumer educators can help young adults understand the nature of different types of consumer credit and manage their debt in order to achieve their homeownership goals.

In conclusion, young adults are facing substantial barriers to homeownership. Homeownership is important to many individuals' financial satisfaction and overall life satisfaction, particularly for individuals over 30 years of age. More financial education and government assistance or supports are needed for young adults to achieve their goal of homeownership in our current economic environment. Consumer policy related to affordable housing also can play an important role in making homeownership achievable, particularly during these times of rapid inflation and rising home prices. Beyond homeownership, consumer debt also plays an important role in the financial satisfaction of young adults. Credit card debt in particular continues to be a significant detriment to the financial satisfaction of younger generations; therefore, continued consumer education targeted to young adults on the proper use of credit is needed.

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