The Influence of Consumer Debt on Financial Distress Among Student Loan Holders

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Student loan debt has become a heavy burden for American consumers, with almost 45 million individuals each carrying an average of about $30,000 worth of student loan debt (Friedman, 2020). Research has found that student loans impact various aspects of financial health and behaviors, such as negative financial satisfaction, increased financial stress, and decreased net-worth and investments (Elliott & Lewis, 2015; Mezza et al., 2020). However, little research has been done on the relationship between student loans and financial distress. Financial distress can be considered poor financial situations such as being constrained by poor credit or making late bill payments (Bricker & Thompson, 2016). The two main research questions of this study were: 1) Among student loan holders, what are the relationships between different types of consumer debt and financial distress? 2) What socio-demographic factors are associated with financial distress among student loan holders?

Using data from the 2018 National Financial Capability Study (NFCS), this study examined the relationships between different types of consumer debts and financial distress among student loan holders (N=1478). In this study, financial distress was measured by two variables, mortgage delinquency and retirement hardship withdrawal. As key independent variables, housing debt, credit card debt, automobile debt, medical debt, high-cost small loan, and medical debt were included to measure types of consumer debt. The mortgage delinquency variable was created by coding 1 if respondent had even been late on a mortgage payment one or more times; 0 was entered if otherwise. Similarly, for the retirement hardship withdrawal, the variable was created by coding 1 if they had ever taken a retirement hardship withdrawal; 0 was entered if otherwise. Since these dependent variables were dichotomous, logistic regression analyses were employed.

The descriptive results show that among student loan holders, 86.9% held housing debt, 71.8% held credit card debt, 69.9% had auto loan debt, 35.3% had high-cost small loan debt from alternative financial services, and 42.8% held medical debt. The descriptive results also show that 31.8% of student loan holders had been delinquent on their mortgage at least once, and 25.8% of student loan holders had taken a retirement hardship withdrawal. The logit results show that all else being equal, those who hold credit card debt were 132% more likely to be delinquent on their mortgage payment. Student loan holders who held high-cost small loans such as payday loans, pawn shop loans, or auto title loans, were 621% more likely to be mortgage delinquent than those who do not have these types of small loan. Student loan holders who hold medical debt were 289% more likely to be delinquent on their mortgage. The logit results also show that student loan holders who had auto debt, high-cost small loan debt, and medical debt were 289%, 550%, and 696%, respectively, more likely to have taken a retirement hardship withdrawal than those who do not hold such consumer debt.

The purpose of this study was to explore how different types of consumer debt were related to financial distress among student loan holders. We found that student loan holders with high-cost small loans and medical debt were much more likely to have been delinquent on their mortgage and taken retirement hardship withdrawals. As they hold this type of debt along with student loans, this can cause serious financial issues for these individuals. Financial counselors are often assisting individuals who have already taken on student loans and other types of debts who could be moving towards situations of financial distress. Financial professionals can assist student loan holders with heavy debt burdens by providing them with resources to adjust their financial situation. For example, they can help clients improve their financial management skills by providing greater financial education on both the types of debts the client has as well as their situation of financial distress.

The findings of this study suggest that Millennials (age 18-37) and Gen Xers (age 38-53) were more likely to be delinquent on their mortgage. Specifically, Millennials were 219% more likely to be delinquent, which could be a result of increased debt loads and a lack of financial knowledge. Financial educators should seek out this millennial group and provide greater consumer debt education and

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homeownership education. The earlier an individual is exposed to financial education, the more objective financial knowledge they may have when making these debt decisions. Financial educators can also highlight the impacts these debt decisions can have on financial distress to help deter individuals from taking part in these financial behaviors. Other socio-economic factors associated with financial distress included being male and Black. These two demographic groups were more likely to be mortgage delinquent as well as take a retirement hardship withdrawal. Future studies could further develop this factor to understand the gender differences in financial distress among student loan borrowers. In addition, policy makers can seek to further the efforts and outreach of community financial education programs to serve the Black community.

This study sought to understand the different types of debt that could be related to financial distress among student loan holders. Not only are student loan holders already carrying the burden of student loans, but also they have taken on other stressful debts, pushing them closer to situations of financial distress. Previous studies have not considered how these other debt burdens could impact financial distress among student loan holders. It is important to note who among student loan holders could be at greater risk of financial distress, including males, Blacks, those with some college education, and those lacking objective financial knowledge. The findings of this study can provide important predictive factors of financial distress among student loan holders in an effort to expand the literature and further help those burdened by student loan debt.

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