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Is access to home equity changing higher education?

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As a mother of two college students, how Americans pay for college is frequently on my mind. The impact of the financial crisis and recession —including an unstable job market and tightening lending standards — on higher education is noticeable. The way families choose a college and fund a college degree has changed along with the changing economy. Prior to the financial crisis it was not uncommon for families to refinance their home or draw on a home equity line of credit to assist with their child's college education costs, sometimes drawing out 100 percent of the equity. In fact, many financial advisors considered covering the cost of higher education a justifiable use of home equity.

Working in the real estate closing and title business I have seen a dramatic change in lending practices since the beginning of the financial crisis in 2008, especially a reduction in the amount of equity borrowers are able to withdraw from their homes. Lenders now manage borrowing more closely and have strict limits on cashing out home equity.

Declining home values have also impacted the lending industry — even if a property is not "underwater" and has positive value most lenders still limit the amount of equity one can withdraw. Additionally, an uncertain job market has many homeowners unwilling to drain home equity, no matter the reason, even if they would qualify for such a loan.

While a home equity line of credit used to be easily attainable, this is no longer the case. Millions of homeowners do not qualify because they owe more on their mortgage than their home is worth. Those with positive home equity are finding that lenders are no longer willing to extend credit and many of those with existing equity lines have received notice that their credit lines have been reduced or frozen.

These changes have ended the ability to cover large expenses, such as a college education, through equity draining loans; and the tightening of lending practices has ultimately impacted how some families shop for and choose a college.

What impact is the economy, including an inability to withdraw equity from one's home, having on higher education? According to Sallie Mae's 2012 national study of college students and parents, "How America Pays for College," there is a dramatic post-recession decline in parental college spending and an increased need for loans and grants to cover the costs of college.

Parents are increasingly questioning the market value of a college degree, and a large number of families are eliminating colleges based solely on cost. Parents are also looking at the marketability of certain degree programs and encouraging their students to obtain specific technical skills rather than choosing a liberal arts education. Additionally, many parents are unable to assist their children with tuition because they still carry their own student loan debt or are taking out their own student loans due to job transition.

A majority of families have begun exercising cost saving measures, including attending community college for a year or two, living at home, and choosing to live with a roommate to dampen the financial blow.

The growing dependence of families relying on loans to cover college costs translates to the ever increasing borrowing by students. In fact, according to the Sallie Mae study, the percent parents contributed to college costs decreased 32 percent between 2010 and 2012, and student borrowing increased from 25 percent to 34 percent between 2009 and 2012.

Further, the Federal Reserve Bank of New York recently

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released a study showing that the nation's student loan debt burden is only second to mortgage debt, and has surpassed both auto loans and credit card debt. The increased demand for student loans and grants may ultimately affect who is able to attend college.

In the long run, the increased student borrowing may affect the economy negatively as graduates will have less available income for major purchases such as new cars and homes and will struggle more to save for retirement than earlier generations. Ultimately, we may see a widespread call for a decrease in, or at minimum a stabilization of, rising college costs, as well as a major overhaul of the higher education system.

With the high cost of college, increased portion of debt borne by students and the high amount of student loans it will be increasingly difficult for graduating students to achieve the American Dream — their own home. And although I love my boys with all of my heart, I most definitely would like to someday see them live in their own home and not in mine.

While limitations on withdrawing equity from one's home is not the only factor in the changing landscape of higher education, it is a factor. Combined with an unstable job market and decreasing home values, tightened lending standards have caused families to think differently about how they will pay for college and ultimately which college their child will attend.

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