Bringing Millennials into Banking

Millennials are not disenchanted with banks, they just are not ready for the products that brought previous generations into the banking system.

Millennials have had a rough financial start. More millennials are going to college than any previous generation. Although this is good, many are taking on debt to do so. In fact, 75 percent of graduates today have student loan debt, averaging $29,000.

At the same as they are taking on this debt, their earnings prospects are diminished. Millennials have entered the workforce in a period that has seen two historic recessions. With higher debt and lower earnings, it is no surprise millennials' finances are a bit shaky.

Because of their finances, millennials are delaying major life events. Just 23 percent of adults aged 18-31 are married and own a home. Major life decisions like starting a family and buying a home are exactly what brought previous generations into banks.

Despite this slow start, millennials want the same things as previous generations, just on a slower timeline. Studies show that 93 percent of millennial renters plan to own a home someday and 74 percent want to have children.

In order to accomplish this, millennials need first to rebuild their finances. This is exactly where they need banks' help.

Banks can leverage technology to deliver innovative products that help rebuild millennials' finances. If they are able to do this, when millennials are ready for mortgages they will turn to the banks that helped them get there.

ROB MORGAN *is VP for emerging technologies at ABA.*

What Makes Millennials Different?

To help understand some key trends about what millennials believe and why it matters for banks, we asked Kristen Soltis Anderson, a pollster and expert in millennial public opinion and behavior, to highlight some top trends.

On skepticism of received wisdom about the good things in life

It's a generation that's a little more commitment-phobic than previous generations. The idea of making a commitment to anything that will last more than the next week is an anxiety-inducing proposition for many. A lot of the things millennials were told were the responsible commitments to make—whether that's to commit to getting married, starting a family and settling down; to commit to going to college and getting a degree; to buy a home; to invest in the stock market—have turned out in the minds of many millennials to be less of a good deal than they were sold. So they're a little bit skeptical when they're told "You should do this because it's the smart, responsible thing to do."

On valuing family and striving for success

On the other hand, they're pretty optimistic and creative, and they want to be able to blur the lines between their personal lives and their work lives. The lines between work and play have blurred a lot for millennials, and that's something for people who work in the financial sector to know. At the margins, you're seeing a slightly different set of values when millennials ask, "What does fulfillment in life mean to me, and how can I make my career support that?" Family is hugely important. It's defined a little more flexibly than previous generations, but this is a very pro-family generation. This is a generation that puts a lot of pressure on themselves—you've got to thrive at home, you've got to thrive at work and you've got to put it all together.

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When It Comes to Finances, Millennials Want to Save

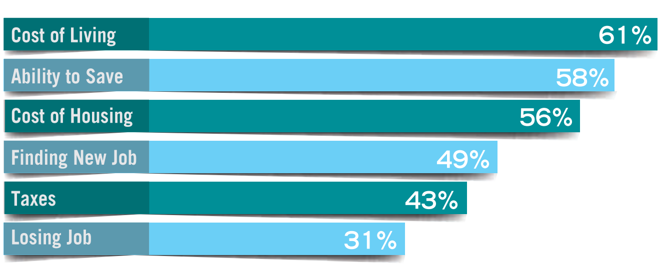
Learn more at aba.com/Millennials

Many have made the claims that millennials don't save enough—or even at all. But data suggests that savings is actually a high priority for this generation. In fact, millennials are proving to be far more financially conservative than the Gen Xers or Baby Boomers and a large percentage rank saving money highest on their list of financial priorities. Yet for many millennials, student loan debt is stymieing their ability to save and causing them to delay major life decisions, like buying a house or starting a family.

Many millennials are starting their financial lives already encumbered by staggering amounts of student debt. Two-thirds of all millennials—and 80 percent of college-educated millennials—have at least one source of outstanding long-term debt:

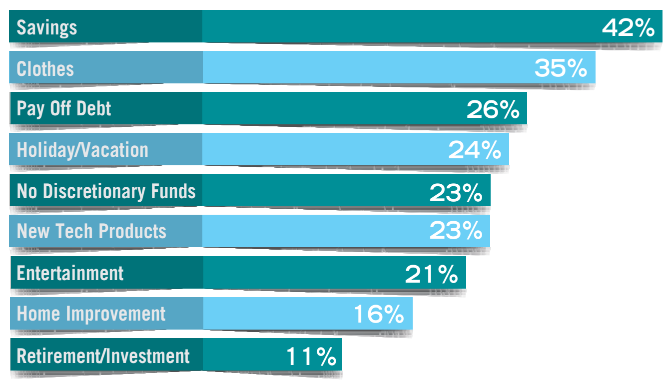
$29,400
The average student loan balance

According to a Bank of America/*USA Today* survey, ability to save was millennials' second-biggest financial concern:



Millennials are commonly defined as the generation of Americans born between 1980 and 2000. There are more millennials than Baby Boomers, and millennials now account for 44 percent of the workforce—the largest generational cohort.

But those that can save, are. According to Nielsen, savings is where most millennials choose to allocate their discretionary spending dollars:



Millennials are budget-conscious and want tools to help them save and plan:

46% want their bank to analyze their spending habits and provide feedback.

66% of millennials say they have a monthly budget.

67% of millennials say they want their bank to provide budgeting tools.

As "digital natives," 88 percent of millennials currently use online or mobile banking. Cultivating a digital relationship with millennial customers will be critical to banks' success in the coming years. By leveraging mobile to offer innovative budgeting, payments and savings tools, banks can attract and retain millennial customers.

(Not) Going to the Chapel

How millennials' changing marriage patterns are shaping their engagement with banks.

BY EVAN SPARKS

We've only just begun to live
White lace and promises
A kiss for luck and we're on our way

While you may be familiar with the Carpenters' number-one 1970 hit "We've Only Just Begun," you probably didn't know that the song got its start as the soundtrack to a bank commercial.

Over wordless, soft-focus, close-up scenes of a young couple getting married in a California country church, the singer croons about the adventures the newlyweds have in store. The ad concludes with the couple driving off into the evening, followed by the words: "You've got a long way to go. We'd like to get you there. The Crocker Bank."

The popular ad showed how important young married customers were to banks. Today, for bankers wondering when (and if) millennials will come into banks in droves, the place to start is the data on marriage. Millennials—roughly, the generation born between 1980 and 2000—are not getting married at the same pace as prior generations. In 2014, the marriage rate was 35 percent lower than in 1970. Then, nearly 80 percent of those aged 25-34 were married. Today, just about half of Americans aged 25-34—that is, the older half of the millennial generation—have married.

This sea change in marriage could dramatically change when and whether Americans engage with banks as deeply as previous generations.

Marriage on the move

One central shift is a view among millennials of marriage as a "capstone" experience. In 1970, the average age of first marriage was 21 for women and 23 for men. People married on the cusp of adulthood and grew together. Young married couples shared the experiences of going to college or grad school together, of working low-paying jobs to build a career, of living cheaply in ratty apartments to save money.

Today, the average man marries for the first time at 29 and the average woman at 27. "Culturally, young adults have increasingly come to see marriage as a 'capstone' rather than a 'cornerstone'—that is, something they do after they have all their other ducks in a row, rather than a foundation for launching into adulthood and parenthood," says a report from the National Marriage Project at the University of Virginia. This increasingly common idea posits that young people should finish their (often lengthy) higher educations, reach a high level of career achievement, experience travel and other exotic pursuits, cohabit with potential mates and become financially well-off before thinking about marriage and children.

A young adult in this mode isn't the same kind of bank customer as his parents were. "The educated class of millennials are marrying well into their late 20s and often into their 30s and they don't have children until their 30s or later," says Manhattan Institute Senior Fellow Kay Hymowitz. "Banks are dealing with 30-somethings where they might previously have been dealing with 20-somethings."

However, the affluent millennial pursuing a capstone approach to marriage will eventually make it into the bank, says Hymowitz. Millennials from working-class and less-affluent backgrounds may not—ever. While the capstone marriage is a goal for young people at all levels of the socioeconomic ladder, the less affluent are more likely to have children before getting married—and that can set them up for a lifetime of catching up. And since marriage

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Culturally, young adults have increasingly come to see marriage as a **“CAPSTONE” RATHER THAN A “CORNERSTONE”**—that is, something they do after they have all their other ducks in a row, rather than a foundation for launching into adulthood and parenthood.

itself provides demonstrable financial benefits, remaining unmarried deprives them of further opportunities.

“Young, less educated adults are going to be in a much more precarious economic condition as a result of not marrying,” Hymowitz says, pointing out the benefits of two pooled incomes for hitting the financial milestones that banks offer. And while less educated millennials do often move in together, “cohabitors don’t tend to be as stable or committed to future planning,” she explains. “That affects their approach to buying homes—assuming they could even manage the expense.”

“This capstone model is not working well for Middle Americans,” conclude researchers at the National Marriage Project. One must ask if it’s working well at bringing these young adults into the mainstream financial services marketplace.

Why marriage matters

Millennials want to get married just as much as previous generations did. But for young people shaped by divorce and a shaky job market, marriage can seem risky. The truth is the opposite. While individual anecdotes may vary, the evidence broadly shows that marriage is a stabilizing, risk-mitigating force in people’s lives. Unfortunately, according to the Pew Research Center, only one-third of millennials believe that marriage contributes to financial stability.

Married men earn nearly one and a half times what unmarried men make, even when controlling for external factors. “The institution of marriage continues to boost men’s commitment to work and the individual economic success they enjoy,” write Brad Wilcox of the University of Virginia and Robert Lerman of the Urban Institute. Women in intact families likewise enjoy greater levels of income. “Both men and especially women enjoy higher family incomes when they get and stay married.”

Married customers tend to be better bank customers as well, being several times more likely to own a home and 30 percent more likely to apply for a mortgage than unmarried individuals. They also tend to have monthly deposit values more than 40 percent higher than those of the unmarried. Figures from Gallup show that married people spend slightly more each month than cohabiting couples—and nearly twice as much as singles. Raising children amplifies these effects. According to Jeffrey Dew, a sociologist at Utah State University, married fathers have much higher levels of personal net worth over their lifetimes than non-fathers or unmarried fathers.

If millennial bank customers are simply delaying marriage, bankers can target them with mortgage and wealth management products later than they otherwise might. At present, given the large student debt overhang and the cohort’s lower marriage rates, “they don’t have very many incentives to engage with financial institutions,” Dew says.

But “a substantial number of young people are not just putting off the landmarks of adulthood but are just not following that script at all,” says Hymowitz. If marriage is no longer part of the “life script” in your community, what does that mean for your bank?

If marriage is no longer part of the picture for millennials in your market, you may see increases in the unbanked and underbanked. According to the FDIC, only one in five married couples are unbanked or underbanked, but nearly half of female-headed unmarried households are. If marriage rates continue to decline among millennials, then reaching the unbanked will become a more important strategy for many banks.

Many observers focus on millennials’ comfort with technology, desires for authenticity and appreciation of customization when they look at the future of banking. Just as important for understanding millennials and the future of banking is understanding the role of marriage trends. And in that endeavor, we’ve only just begun.

EVAN SPARKS *is editor-in-chief of the* ABA Banking Journal.

Falling Behind to Get Ahead: The Millennial Student Debt Trap?

BY SHAUN KERN

Surveys show that millennials visit bank branches less, value online banking more and carry higher levels of debt than prior generations—but not bank debt. Millennials carry more debt because they have seen education costs rise sharply and have overwhelmingly turned to student loans issued by the federal government to cover these costs.

Research by Harvard's Joint Center for Housing Studies confirms this, showing that for households aged 20-39, the incidence of student loan debt rose from 16 percent in 1989 to 39 percent in 2013. Measured in constant dollars, there has been a drastic increase in student loan debt burdens of $50,000 or more, quadrupling from 4 percent in 1989 to 17 percent in 2013. With student loan debt having swelled to over $1.2 trillion in the United States, it has become the largest form of consumer debt held by American households.

The connection between housing and student loan debt is straightforward: millennials struggling with student loan debt are less able to afford a home. Student loan debt makes it more difficult to save for a down payment and also weighs unfavorably in "debt-to-income" calculations, making it harder to qualify for a mortgage in the first place. Rising rents in many American cities have also taken a larger share of millennial income, which further complicates the path to future home ownership.

For millennials seeking advanced degrees and opportunities in larger cities, these challenges are magnified. Nowhere is this more obvious than in Washington, D.C. From 2006 to 2009, census data shows that millennials were leaving the nation's capital. However, immediately following the financial crisis, the D.C. metro area saw a migration of millennials larger than anywhere else in the country. This has made D.C. and its surrounding Virginia and Maryland suburbs the most millennial-dense metro area in the United States. However, millennials in cities like Washington face obvious challenges to homeownership and wealth building. To start, the median rent for a one-bedroom apartment in Washington is a staggering $2,000 per month. When this rent burden is combined with student loan obligations, the results are alarming.

> "Even high-earning millennials with the potential to be good bank customers can face **FINANCIAL HURDLES** that will take them years to overcome.

Student loan obligations for millennials vary widely by the degree they earn, but a particularly vivid picture is painted with data on recent law school graduates. The American Bar Association estimated in 2012 that average student loan debt for law graduates of public and private law schools stood at $84,600 and $122,158, respectively. The student loan market is dominated by the federal government, which currently charges slightly above 6 percent for graduate student loans. After fees, the standard 10-year repayment schedule with a 6 percent rate and principal balance of $84,600 leads to payments of approximately $963 per month. If you change the principal balance to $122,158, the average debt for a recent private law school graduate, this leads to payments of approximately $1,390 per month.

Taken together, typical millennial lawyers in D.C. are paying nearly $2,000 per month in rent and roughly $1,000 or $1,400 per month in student loans. Great salaries like $100,000 per year turn out to be about $5,000 per month after necessary withholdings and taxes. Even with such a high a salary, 60-68 percent of this six-figure-earning millennial's after-tax income would be dedicated to rent and student loans. This would leave $1,600-$2,000 per month to cover all of life's expenses and save toward the future. If this millennial saves $500 a month—a sizeable fraction of his or her remaining income—this will lead to savings of $6,000 per year. However, the median sales price for a home in the D.C. metro area is currently $415,000. Saving $500 a month, it will take almost *14 years* for this millennial to save enough for a traditional 20 percent down payment on a home that is priced at the median. While both home prices and this millennial's income are likely to change over the years, this rough timetable speaks volumes about why millennials are not buying homes as early as their parents.

This illustration may bring you as close as you ever come to feeling bad for a young, highly paid lawyer in the nation's capital. Still, it's hard to garner too much sympathy for a millennial whose income places them near the top quintile of household income in America. Feelings aside, this shows how even high-earning millennials with the potential to be good bank customers can face financial hurdles that will take them years to overcome. Further, if this is the story of millennial *success*, then the tale of millennials that are struggling economically must be truly disquieting.

It's not just Washington, it's not just mortgages, and it's not just lawyers, either. In slightly different variations, this type of financial landscape exists across America and affects a range of millennials who find themselves struggling to save for emergencies, get married, form a family or start a new business while also servicing their student loans.

Eventually these millennials will be well positioned to borrow again, but data and research suggests that this could take time. Millennials are justifiably shy about taking on new debt when they often find themselves with student loan balances equal to the mortgages on the homes they grew up in. These millennials have already mortgaged their future with student loans once. It should be no surprise to hear that they are not ready to do that twice.

SHAUN KERN *is counsel in ABA's Office of Regulatory Policy.*

Are Millennials Worth the Hype

Millennials are important for banks' futures—but not because they are millennials.

BY ETHAN EPSTEIN

Molly Otto, a 25-year-old project manager living in San Francisco, may appear to be a typical "millennial" bank customer. She uses online banking weekly, but only visits a physical bank branch every three to four months. She wants mobile check deposit and convenient online banking, and low fees as well.

While millennials now constitute the largest age cohort in America at 80 million strong, and the most ethnically and racially diverse one, quite a lot of them have banking habits like Otto's. Sixty-eight percent of millennials manage their banking wholly online, reports the management consulting firm CCG Catalyst. Fewer than half ever write a check. Some 27 percent would even consider switching to a bank with *zero* branches if they were to leave their current bank.

And yet, for all the media hype over millennials, they're not quite the digital native, online-only tech-obsessives that some make them out to be. Consider: Despite their professed interest in branchless banks, a mere 4 percent of millennials actually use an online-only bank. And while a mere 48 percent of millennials are fuddy-duddy enough to write checks, only a slightly smaller percentage—46 percent—use online banking to pay bills.

Using a broad brush

There's evidence, furthermore, that attitudes and habits that are widely thought to be millennial-specific may actually be quite widespread among the general population. Eighty-one percent of *all* Americans looked at their bank account online at least once over the past year, according to the Pew Research Center, and 39 percent of Americans of any age now use mobile banking. And it's not only millennials, it appears, who are intolerant of account fees; one survey found 23 percent of larger bank customers considering bolting, largely because of the disappearance of perks like free checking.

In other words, focusing on millennials as a discrete category may obscure other, more relevant ways of segmenting the market. Millennials may be simply too diffuse a category for banks to target specifically. How similar can 80 million distinct individuals really be?

Take the question of millennial incomes. By some accounts, millennials are underemployed and drowning in student debt, eking out meager existences in their parents' basements. There's some truth to the stereotype: More than a quarter of them earn less than $25,000 a year, and 40 percent say that their debt obligations are seriously crimping their finances. Fifty-seven percent of millennials, meanwhile, say one of their financial goals is "to have enough money for daily living expenses," and 43 percent say they want to "*become* financially independent" versus 31 percent who say their goal is to "*remain* financially independent." And millennials save only about 4 percent of their income, lower than other cohorts—Generation X, the slightly older group, saves roughly 6 percent. All of this hardly suggests a generation living high on the hog.

And yet, despite the grim data, 26.5 percent of millennials earn at least $75,000 a year. That's more than 20 million people. And even the low-income statistics can obscure more than they reveal. Is that millennial making under $25,000 a high school dropout, with

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very poor long-term prospects? Or is she a student at a top tier law school, who currently has a low salary, but who can likely look forward to many years of high earnings? And how much of millennials' poor finances are just a result of them being, well, younger? Those just starting out in their careers have long earned less than their more senior colleagues, after all.

Age isn't everything

That's why Kevin Tynan, SVP for marketing at Liberty Bank for Savings in Chicago says that it makes much more sense to use lifestyle segmentation, rather than age, to target customers. "People's attitudes don't start at 18 and end at 34," he tells me, arguing that age is overrated as a determining characteristic. Banks need to look for customers on the "basis of lifestyle rather than age," he argues.

Tynan specifically recommends using services like Nielsen's P$YCLE's lifestyle segmentations, which break people down into 47 different categories based on their financial habits—categories like "bargain lovers," "corporate climbers," "loan rangers" and "young urban renters." ("Loan rangers," for example, are, as Nielsen puts it, "top-ranked markets for student loans and new car insurance" but they don't save much for retirement.) Once a bank determines which categories it wants to target—for example, do you want big savers, or big borrowers?—it can adjust its marketing approach accordingly. That's a much more effective approach, Tynan contends, than simply going after a huge swath of people who just happen to have been born around the same time.

It's certainly true that, as Tynan puts it, banks "must replace older customers they lose through attrition." But banks need to be strategic about which young people they're targeting. That's where lifestyle or behavioral segmentation comes in.

Tynan is not alone in questioning the wisdom of strictly demographic-based marketing. A 2011 article in the *Journal of Financial Services Marketing* reports that "demographic-based segmentation as a means of targeting customers of financial services is … ill-founded." As financial marketing commentator Jim Marous summarized, "customers of the banks analyzed importance scales on 28 service-related comments that related to nine key financial service factors such as website appeal, trust [and] customer service … The responses were analyzed against five demographic measures: age, gender, income, occupation and education. Overwhelmingly, significant differences between demographic groups were not found." The researchers found that it's better to target potential clients based on the kind of behavioral factors that lifestyle segmentation takes into account: How does the customer save? How does the customer spend? Age, it appeared, was too broad a category to target meaningfully.

In the end, then, perhaps millennials are a lot like everybody else—just a little younger. If banks provide the services all Americans want—lower fees, good online and mobile banking—and target the specific kinds of customers they want, they should succeed. Age, at the end of the day, is still just a number.

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