HARLAND CLARKE®

Generational Borrowing Habits:

The Skinny on Boomers, Gen X, Millennials, and iGen

The traditional life-stage model has been very useful for financial institutions and their marketers. After all, if you're newly married or just about to retire your financial needs will be very different. Knowing what life stage a customer or prospect is in helps to pinpoint what loan products, for example, he or she may be interested in.

"Financial institutions that want to grow their loan portfolios need to understand these generational differences. They offer real opportunities for banks and credit unions to differentiate themselves by offering more personalized loan products."

But recent research suggests that every generation approaches their finances differently. So, what Baby Boomers (born 1946-1964) were doing at the start of their careers is not necessarily what Millennials (born 1981-1996) are doing now. What Generation X (born 1965-1980) did post-college may not align with what Generation Z (born 1997-present) plans to do. Possible reasons for this include the Great Recession, the proliferation of digital technologies, or simply the passage of time.

One thing is clear: financial institutions that want to grow their loan portfolios need to understand these generational differences. They offer real opportunities for banks and credit unions to differentiate themselves by offering more personalized loan products.

Baby Boomers

The Great Recession impacted every generation in the United States. From 2007 to 2010, the wealth of the typical American household fell 39 percent.[1] No generation was impacted more than the Baby Boomers. It depleted home equity and retirement accounts in their critical late career saving years. In fact, one in five Baby Boomers never recovered and had to rely on borrowing to meet their everyday living expenses.[2]

In addition to recovering from setbacks in the late 2000s, Baby Boomers are also the largest growing demographic for student loan debt. Debt held by borrowers aged 50-80 has increased by 60 percent during the past 12 years, with student loan debt more than doubling.[3] While Baby Boomers were not attending college themselves, they accumulated this debt on behalf of their adult children, to help them defray the rising costs of tuition.

Despite these concerns, the financial outlook for Baby Boomers isn't entirely grim. Due to their long credit histories and stable employment records, they are most likely of all the generations to pay back their loans,[4] making them solid customers for financial institutions.

"Baby Boomers are the largest growing demographic for **student loan debt."**

Sources:

[1] Bricker et al, "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, Vol 98, No 2, June 2012

[2] Transamerica Center, "The Current State of Retirement: Pre-Retiree Expectations and Retiree Realities," December 2015

[3] Politico, "The Latest Victims of Student Loan Debt? The Elderly," February 25, 2016

[4] Ibid.

"Generation X is the first American generation to do less well than their parents."

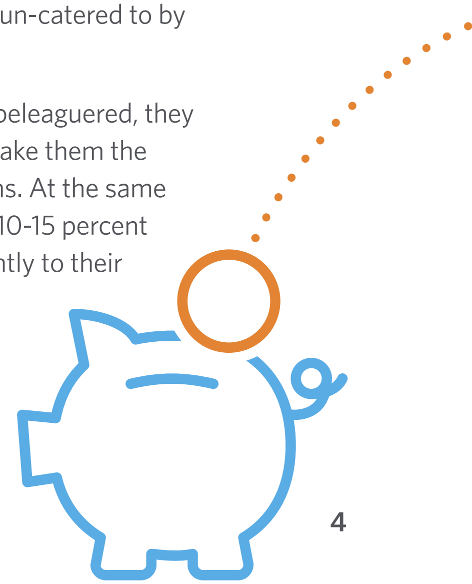
Generation X

While Baby Boomers certainly have financial worries to contend with, research suggests it is actually Generation X struggling the most with their finances.[5] High mortgages, kids at home, aging parents and student loans are squeezing Gen Xers' wallets.

Considered the first American generation to do less well than their parents, Gen Xers not only took out money for college and their homes, they also borrowed to pay for the lifestyle their parents had afforded them as children. Because of these factors, members of Gen X carry the highest debt load – an average of $142,077 per person.[6]

With Gen X being a relatively small subset of the population, sandwiched between mega-generations like the Baby Boomers and Millennials, they often report feeling lost and un-catered to by financial institutions.[7]

And while some consider Gen X to be financially beleaguered, they shouldn't be written off. Their borrowing habits make them the most steady customers for banks and credit unions. At the same time, they have reduced the amount they owe by 10-15 percent since 2008, while contributing the most consistently to their retirement funds during the Great Recession.[8]



Sources:

[5] LIMRA.com, "Generation X Represents Opportunity Right Now," January 28, 2015.

[6] Ibid.

[7] Ibid.

[8] Fortune.com, *America's Most Indebted Generation? Gen X*, August 27, 2014

Millennials

Millennials are the largest and most diverse generation in American history. At 75.3 million, they surpassed the 74.9 million Baby Boomers as the nation's largest living generation in 2015 (compared to the roughly 66 million Gen Xers, who aren't projected to outnumber Baby Boomers until 2028).[9]

In addition to their size and diversity, Millennials have the most buying power. And while the Great Recession has significantly delayed accomplishing many milestones of the American Dream, such as buying a home or new car, Millennials are not afraid to borrow – especially when it comes to purchases they feel will put them ahead financially.[10]

Not surprisingly, the largest and most common purchase for Millennials is a college education. Their average student loan balance is $25,500 – more than 60 percent above the $15,900 average just 10 years earlier.[11] Millennials are also borrowing for cars. They represent more than 25 percent of new vehicle sales, compared to 14 percent five years ago, making them the fastest growing consumer segment in auto purchases. They are also buying homes. First-time homebuyers are made up mostly of Millennials (68 percent), and of those who can't yet afford homeownership, 70 percent say they want to buy a home in the next five years.[12]

What Millennials don't want is credit card debt.[13] They account for just 27 percent of new credit card accounts (Gen Xers account for 46 percent),[14] perhaps because of their oversized student loans, lagging wages and lower employment opportunities in the post-recession economy.

"Millennials are the largest and most diverse generation in American history – and they have the most buying power."

Sources:

[9] Pew Research Center, "This year, Millennials will overtake Baby Boomers," *Fact Tank*, January 16, 2015

[10] Credit Union Times, *Millennial Borrowing Shows Promise*, October 16, 2015

[11] PewResearch.org, *Millennials Surpass Gen Xers as Largest Generation in the Workforce*, May 11, 2015

[12] Harland Clarke, *Four Things to Know About Millennials and Lending*, 2015

[13] Bankrate.com, *More Millennials Say No to Credit Cards*, September 8, 2014

[14] Nerdwallet.com, *Credit Score Shape Up Plans for Every Generation*, August 17, 2015

Generation Z (iGen)

While many financial institutions view Millennials as the most complex consumer group, it is actually Generation Z that will provide the biggest marketing mystery. Nicknamed "iGen" because of their 100 percent digital, mobile app-savvy lifestyle,[15] these children of the economic crisis are already concerned about their future earnings. In fact, 55 percent report being worried they won't be able to borrow money in the future if they need it.[16]

Despite – or maybe because of – these fears, most Gen Z members (50-70 percent) have aspirations of running their own company.[17] Far from fleeting, this desire is starting to manifest in what they want out of a college education.[18] Not only have they requested more courses in how to start and grow a business, they want more control in designing their programs of study.[19]

It's hard to say what's driving such desires. Is it the legacy mindset of a generation who spent their formative years in the Great Recession (64 percent fear they'll be unable to find a job)?[20] Or is it being fueled by unfettered access to the digital economy and the Internet that supports it, resources that were unavailable to previous generations?[21]

With the pop culture credo of tech moguls like Mark Zuckerberg, Bill Gates and Steve Jobs, and the prominence of wealthy YouTube stars like PewDiePie, Lindsey Stirling and TheDiamondMinecart, it's not difficult to see how today's youth would be seduced into believing all it takes is a good idea (that someone else will fund into being profitable) and/or a gimmick that can translate into a large online following in order to strike it rich.[22]

This paradox of believing in a "virtual" reality on the one hand while not believing in the solidity of the U.S. job market on the other is just one of the mysteries that financial institutions will need to unravel as Gen Zers come of age. They will also need to improve their digital and mobile technologies (above and beyond what they're currently doing to attract Millennials) if they hope to market to the iGen crowd.[23]

Sources:

[15] CBSWatch.com, *How Generation Z is Changing the Tech World*, March 10, 2016
[16] Research Live, *Money Matters for Generation Z*, November 7, 2014
[17] Ibid.
[18] Northeastern News, *Generation Z is entrepreneurial, wants to chart its own future*, November 18, 2014
[19] Ibid.
[20] Ibid.
[21] Entrepreneur.com, *Why "Gen Z" May Be More Entrepreneurial than "Gen Y"*, September 8, 2014
[22] ConsumerAffairs.com, *Why Are Young People Obsessed with Being Famous?*, January 21, 2013
[23] Business Insider, *Everything You Need to Know About Generation Z*, February 12, 2015

"55% of Generation Z are worried they **won't be able to borrow money** in the future."

Targeting the Generations

Baby Boomers are headed for retirement, and the expectation is that they're winding down on their borrowing and banking needs. But with the "graying of American debt,"[24] Baby Boomers are at risk of being ill prepared for retirement. Financial institutions can best serve their needs by offering competitive loans to help consolidate debt. And banks and credit unions shouldn't overlook Baby Boomers' needs for educational products, to fend off scammers.

While Gen X is the most employed generation – 77 percent of Gen Xers are gainfully employed[25] – they also struggle with the highest debt loads. It's comparable to the student loan burden weighing down their Millennial counterparts, except Gen Xers are more likely to have higher mortgages, auto loans, and other debt to help pay for the costs of raising families and compensating for stagnant wages. Because of their high debt loads, Gen Xers are good targets for loan products that can reduce their monthly payments, such as low-rate credit cards and mortgage refinance products.[26]

A few years ago, the financial outlook for Millennials looked bleak, but many have taken the post-recession economy and its tough financial lessons in stride. Although many struggle with high student loan debt and lagging employment, they show a willingness to sacrifice and postpone milestone purchases. With the economy on firmer ground, more Millennials are now able to afford those purchases, including new cars and homes.[27]

After seeing their parents struggle through the Great Recession, members of Gen Z are understandably cautious with and concerned about their financial health. At the same time, they don't mind taking the risk of entrepreneurship in order to control their own destinies. The paradoxes inherent in this generation may be due to the throes of youth still finding its identity – or may represent a signature shift in the U.S. economy. Time will tell. And while Generation Z has yet to be heavily courted by financial institutions, they seek to be fully digital with the businesses they patronize, aiming for both an interactive and educational experience.[28]

Sources:

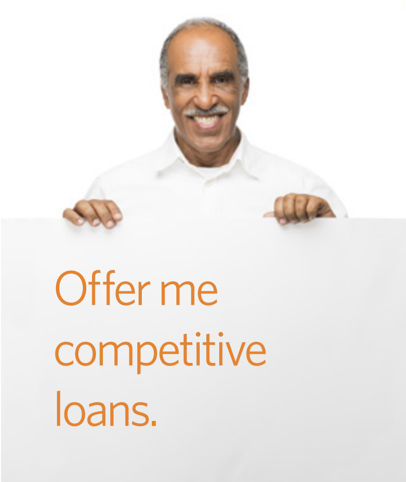
[24] See footnote 3

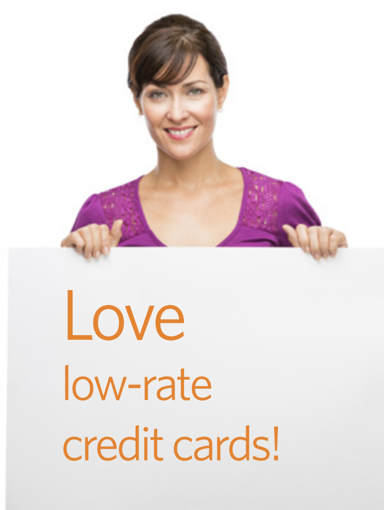
[25] Forbes.com, *X, Y, and Z: How the Generations Really Stack Up – Financially*, November 21, 2014

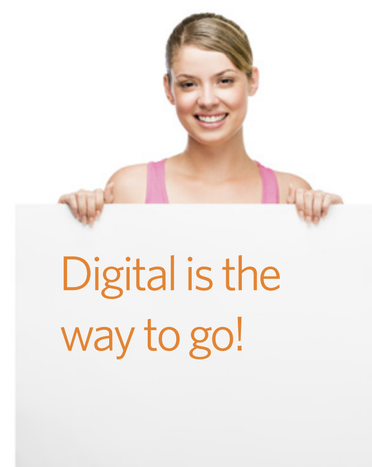
[26] Ibid.

[27] Credit Union Times, *Millennial Borrowing Shows Promise*, October 16, 2015

[28] Research Live, *Money Matters for Generation Z*, November 7, 2014







Conclusion

Baby Boomers and Gen Xers are comfortable using the financial institutions and products their parents used. Millennials and Gen Zers seek to forge new paths – and aren't afraid to research their purchase decisions. Gen Z's existing concerns about financial wellbeing prove it's never too early to start educational initiatives. Most importantly, Gen Z's completely digital lifestyle indicates where the financial services industry is going in the years ahead.

But it's not just Millennials and Gen Z that are changing the way financial institutions cater to borrowers. Thanks to the Internet and the increasing digitalization of the economy, borrowing is no longer a "brick and mortar" business. Consumers can increasingly find answers – and products – online, making it vital for financial institutions to create educational tools and targeted marketing plans for every consumer group it hopes to reach.

Our strategic, data-driven marketing programs are designed specifically for financial institutions. For more information, please call **1.800.351.3843**, email us at **contactHC@harlandclarke.com** or visit **harlandclarke.com/MarketingServices**.