Generational Borrowing Habits:

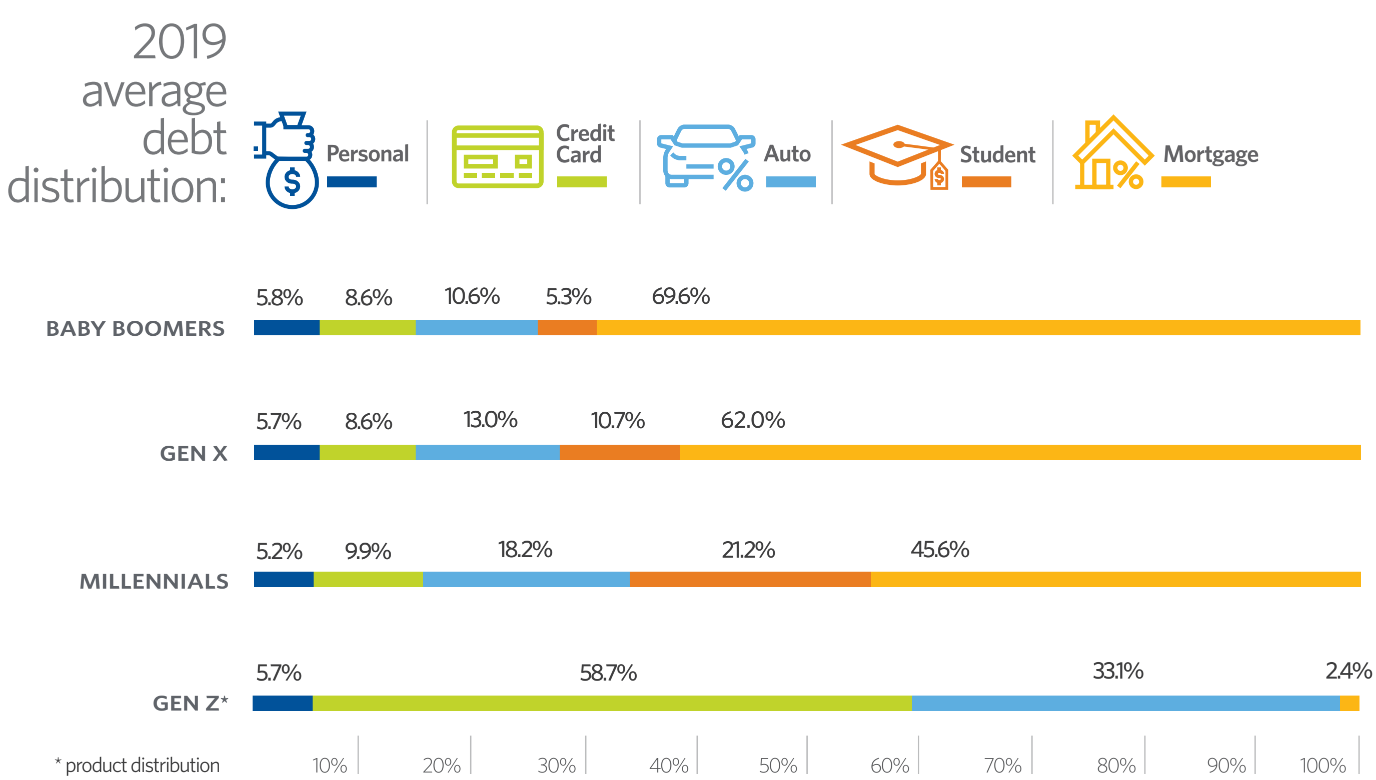
The Skinny on Boomers, Gen X, Millennials and Gen Z

HARLAND CLARKE®

The traditional life stage model has been very useful for financial institutions and their marketers. After all, if you're newly married your financial needs will likely be very different from those at retirement. Knowing what life stage a customer or prospect is in helps to pinpoint which loan products, for example, might be of interest.

Recent research suggests every generation approaches finances differently. So, what baby boomers did at the start of their careers is not necessarily what Millennials do. What Generation X did post-college may not align with what Generation Z plans to do. Possible reasons for this include effects of major economic events or cultural shifts, including the Great Recession, the proliferation of digital technologies and the introduction of fintechs.

One thing is clear: *financial institutions that want to grow their loan portfolio need to understand these generational differences. They present real opportunities for differentiation by offering more personalized loan products, emphasizing the digital experience and delivering a frictionless process for customers.*



Source: My Lending Tree anonymized user credit reports from March 2016-2019.

“Baby boomers are the largest growing demographic for student loan debt.”

Baby Boomers

From 2007 to 2010, the wealth of the typical American household fell 39%.[1] No generation was affected more than the baby boomers, who saw their home equity and retirement accounts deplete in their critical late career saving years. In fact, 58% of them are still recovering.[2]

In addition to recovering from these setbacks, baby boomers are also the largest growing demographic for student loan debt. Debt held by borrowers aged 50-80 has increased by 60% during the past 12 years, with student loan debt more than doubling.[3] While most boomers are 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 the most likely of all the generations to repay their loans,[4] making them solid customers for financial institutions. In addition, home values have recovered, which is good news for financial institutions.[5] Baby boomers’ attractive loan position, coupled with the fact that they are slightly less accustomed to digital processes, make them prime candidates for HELOCs and refis from traditional brick and mortar financial institutions.

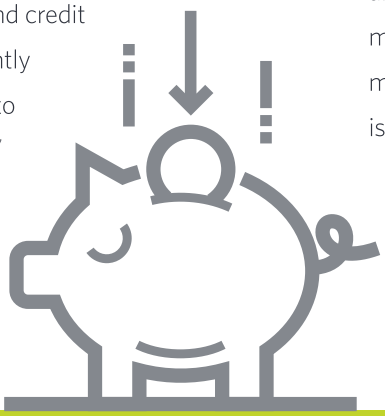
[1] Bricker et al, “Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances,” Federal Reserve Bulletin, Vol 98, No 2, June 2012
[2] Transamerica Center, “Striking Similarities and Disconcerting Disconnects: Employers, Workers and Retirement Security,” August 2018
[3] Politico, “The Latest Victims of Student Loan Debt? The Elderly,” February 25, 2016
[4] Ibid.
[5] Housingwire.com, “This is how the housing market has fared since the Great Recession,” February 22, 2019

Generation X

Considered the first American generation not to do as well as their parents, high mortgages, kids at home, aging parents and student loans are squeezing Gen X wallets.

Gen Xers not only took out money for college and their homes, they also borrowed money to maintain the lifestyle their parents had afforded them as children. As a result, Gen X carries the highest debt load — an average of $136,869 per person, an increase of $11,898 over the past three years.[6]

And while some consider them to be financially beleaguered, Gen X shouldn't be written off. Their borrowing habits make them the most steady customers for banks and credit unions, while consistently contributing the most to their retirement funds.[7]



A relatively small subset of the population, Gen X is sandwiched between the baby boomer and Millennial mega-generations. As a result, Gen Xers often report feeling lost and uncatered to by financial institutions,[8] so personalized product offers would do well with this generation.

Gen X is also known for being self-sufficient, which presents a unique opportunity for institutions that can deliver products and tools that offer education and help them manage their investments independently.[9]

In addition, Gen X is the only generation that has seen their home equity rebound after the Great Recession.[10] They have growing families and their housing needs are changing, making mortgages and HELOCs ideal products for them. Gen X is also more comfortable with digital interactions, so a multichannel approach that emphasizes digital is key to engaging them.

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[6] LendingTree, "Three-Year Changes to Each Generation's Debt," July 10, 2019
[7] Fortune.com, America's Most Indebted Generation? Gen X, August 27, 2014
[8] LIMRA.com, "Generation X Represents Opportunity Right Now," January 28, 2015.
[9] Forbes, "Why Gen X Is Not A Forgotten Financial Generation," January 23, 2019
[10] Pew Research, "Gen X rebounds as the only generation to recover the wealth lost after the housing crash," July 2018

Millennials want to be informed and advised. They will view financial institutions as trustworthy if they offer financial education rather than only pushing products.

Millennials

Though Millennials have the most buying power of current generations, the recession, high cost of education and a generational shift toward delaying things like marriage and first home purchases have significantly deferred many milestones of the American Dream for them.

Still, Millennials are not afraid to borrow — especially when it comes to purchases they feel will put them ahead financially.[11] Not surprisingly, the largest and most common purchase for Millennials is a college education. Their average student loan balance is $34,504.[12]

Millennials also borrow for cars. They represent almost 30% of new vehicle sales, compared with 14% in 2011, making them the fastest growing consumer segment in auto purchases.[13] They're buying homes as well; however, eighty percent of Millennials would like to be homeowners but don't think they're in the financial position to do so.[14]

What Millennials don't want is credit card debt.[15] They account for just 27% of new credit card accounts (Gen Xers account for 46 percent),[16] perhaps because of their oversized student loans, lagging wages and lower employment opportunities. However, this doesn't mean they won't be receptive to financial institutions that market cards that meet their specific needs.

Millennials like to be informed and advised when it comes to their financial decisions. They will view financial institutions as trustworthy if they offer financial education rather than just pushing products. Of course, Millennials are digitally savvy, so a digital presence and an easy, frictionless digital process is essential to attracting them. For example, your mortgage process should include automation tools to verify income, employment and financial statements.

[11] Credit Union Times, Millennial Borrowing Shows Promise, October 16, 2015
[12] Experian, "Millennials' Student Loan Debt Continues to Rise" PewResearch.org, Millennials Surpass Gen Xers as Largest Generation in the Workforce, May 11, 2015
[13] Forbes, "Millennials — Once Viewed As Auto Market's Lost Generation — Now Are Its Biggest Growth Driver" July 27, 2018
[14] Apartmentlist.com, "American Dream of Homeownership Delayed for Millennial Generation," May 16, 2017
[15] Bankrate.com, More Millennials Say No to Credit Cards, September 8, 2014
[16] Nerdwallet.com, Credit Score Shape Up Plans for Every Generation, August 17, 2015

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

Generation Z (Gen Z)

While many financial institutions view Millennials as the most complex consumer group, it is actually Generation Z that presents the biggest marketing mystery. Named "Gen Z" because of their 100 percent digital, mobile, app-savvy lifestyle,[17] 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, presenting financial institutions an opportunity to educate them about borrowing and provide resources such as financial wellness coaches.[18]

Despite — or maybe because of — these fears, this, combined with the rise of the "gig economy,"[19] may call for financial institutions to develop alternatives to traditional checking accounts and loans, such as peer-to-peer lending, for example, that offer more flexibility to meet the needs of these budding entrepreneurs.

Gen Z has a need for autos. Catering to their need to locate used cars at a low price point may not pay off in big profits, but it will get them in the door and initiate a potential long-term customer relationship.

Though the full industry impact of Gen Z remains to be seen, one thing is certain: financial institutions will need to improve their digital and mobile technologies (beyond what they're currently doing to attract Millennials) if they hope to compete with non-traditional banks, lenders and fintechs to reach the digital-first, social media proficient Gen Z crowd.[20]

[17] CBSWatch.com, How Generation Z is Changing the Tech World, March 10, 2016
[18] Research Live, Money Matters for Generation Z, November 7, 2014
[19] Ibid.
[20] Business Insider, Everything You Need to Know About Generation Z, February 12, 2015

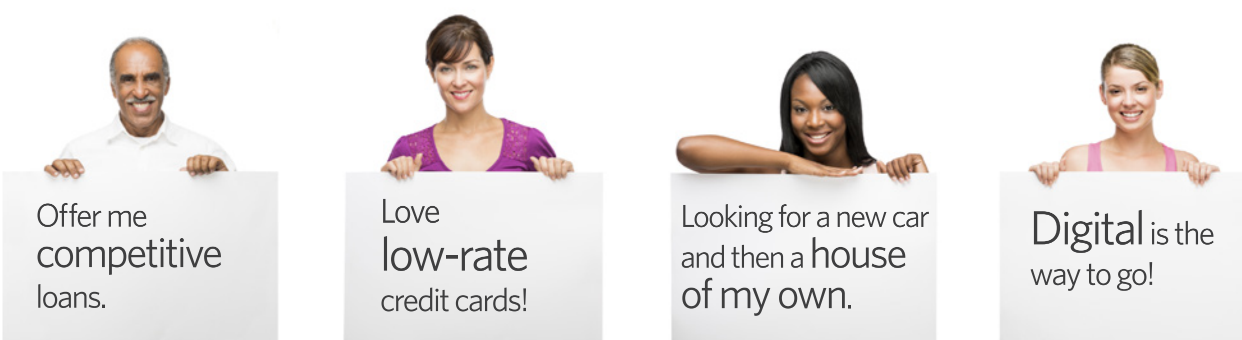
Targeting the Generations

Baby boomers are headed for retirement, and the expectation is that their borrowing and banking needs are winding down. But with the "graying of American debt,"[21] they are at risk of being ill prepared for retirement. Financial institutions can best serve the needs of boomers by offering competitive loans to help consolidate debt. And banks and credit unions also shouldn't overlook baby boomers' needs for educational products to fend off scammers and identity thieves.

Gen Xers 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. 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.[22]

Although many have high student loan debt and lagging employment, Millennials show a willingness to sacrifice and postpone milestone purchases. And the good news is, due to a stable economy, more Millennials are now able to afford those purchases, including new cars and homes.[23] Financial institutions would be wise to appeal to them with financial education, personalized offers and a frictionless digital process.

Though they are cautious and concerned about their financial health, Gen Z doesn'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 be due to 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 informative experience.[24]



[21] Politico, "The Latest Victims of Student Loan Debt? The Elderly," February 25, 2016
[22] Ibid.
[23] Credit Union Times, Millennial Borrowing Shows Promise, October 16, 2015
[24] Forbes, "Getting Gen-Z Engaged In The Financial Industry," June 13, 2019

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.

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