Singing A Tune Of Financial Education

by Steve Brown

One of "outlaw country" musician David Allan Coe's best-known songs is "You Never Even Called Me by My Name." Unfortunately for him, the IRS knew his name, and knew he had not been filing his income taxes. In fact, the US attorney's office says, when the IRS wrote to Coe in 2009 about his tax bill, the singer stopped having concert fees wired to his manager and insisted he be paid in cash for all performances. Oddly, he did not want $50 bills, as he thought they were bad luck, so flags were raised far and wide. Coe eventually pled guilty to obstructing the IRS and now owes the agency $1mm.

Since Coe is 76, it's probably a little late for him to benefit from some financial education. For bankers though, there is a groundswell movement that suggests the youngest generations -- the Millennials, and the even-younger Gen Z -- might have an entirely different approach when learning about personal finance.

Specifically, accounting firm PricewaterhouseCoopers (PwC) found that Millennial teachers, far more so than their older counterparts, are champions of financial education. This is particularly true when teaching students at an early age. In a survey PwC found that 62% of Millennial teachers believe financial education should start as early as elementary school. More Millennial than non-Millennial teachers believe it should come "primarily through classroom instruction, supported by parents/guardians at home," as opposed to the other way around.

Further, while just 10% of non-Millennial teachers have sought grants to teach financial education, the rate of Millennials looking for outside funds is double that at 20%. PwC attributes this to the fact that they are "digital natives" and are more comfortable using technology to secure grants from the government, companies and private foundations.

PwC also found in an earlier report that Millennials have inadequate financial knowledge, as only 24% demonstrated basic financial knowledge. This report found they are considered "financially fragile," with 30% overdrawing their checking accounts and 81% having at least 1 long-term debt. Overall, just 36% have a retirement account, and of those who do, 17% have taken a loan from it, and 14% have taken a hardship withdrawal.

At first, it may seem counterintuitive that this is the group of teachers that believe the most in financial education. But they've lived through the financial crisis and are burdened with more debt than previous generations so it has left a mark on their psyche. In fact, PwC found 54% are concerned about their ability to repay their student loan debt, and 34% with annual household incomes above $75,000 are concerned they may not be able to repay their student loans. Younger teachers may believe in the value of financial education as they seek to help the next generation avoid their mistakes.

This is ultimately good news for banks. These debt-challenged Millennials are heavy users of alternative financial services like payday lenders and pawn shops after all. Many Millennials desire to put off the purchase of a car, or live with parents rather than buy a home given their financial status. This issue though is dampening demand for bank products, so more financial literacy can equal more, and better, bank customers perhaps.

In the meantime, however, there's a gap between educator support for financial education and the resources available to help them meet their goals. Many teachers need curriculum materials and training, and PwC found only 31% of teachers say they'd be "completely comfortable" if asked tomorrow to teach financial education.

Supporting financial education efforts is just a good idea for everyone, as it creates better borrowers for banks and a stronger societal fabric. After all, it would be a darn shame if teachers desiring to teach financial literacy got frustrated enough to cite another one of Coe's songs - "Take This Job and Shove It."

BANK NEWS

CRE Focus

The Treasury Department has expanded its enforcement efforts on buyers of commercial real estate properties paid for in cash, as it seeks to reduce opportunities for money laundering. The new rules require buyers who purchase through an LLC and don't take out a mortgage to provide title insurance companies with personal identification information (which is then shared with the Treasury). The rules are in effect in multiple major cities nationwide now.

Cuts

British bank Lloyds said it will fire 3,000 employees (about 4%) and close 200 branches as it adjusts its network and staffing.

Cyber Impact

Research by Deloitte finds that in some cases, companies that suffered a cyber incident saw a one level downgrade in rating by credit rating agencies. Meanwhile, other informal research by Deloitte among leading providers of cyber insurance found it is not uncommon for policyholders to see 200% increases in premiums for the same coverage post cyber-attack (or possibly even be denied).

Bank NIM

The net interest margin of some of the largest banks (BofA, Citi, JP, PNC, US Bank and Wells) as of Q2 earnings reports has dipped to 2.62% vs. 2.66% in Q1.