



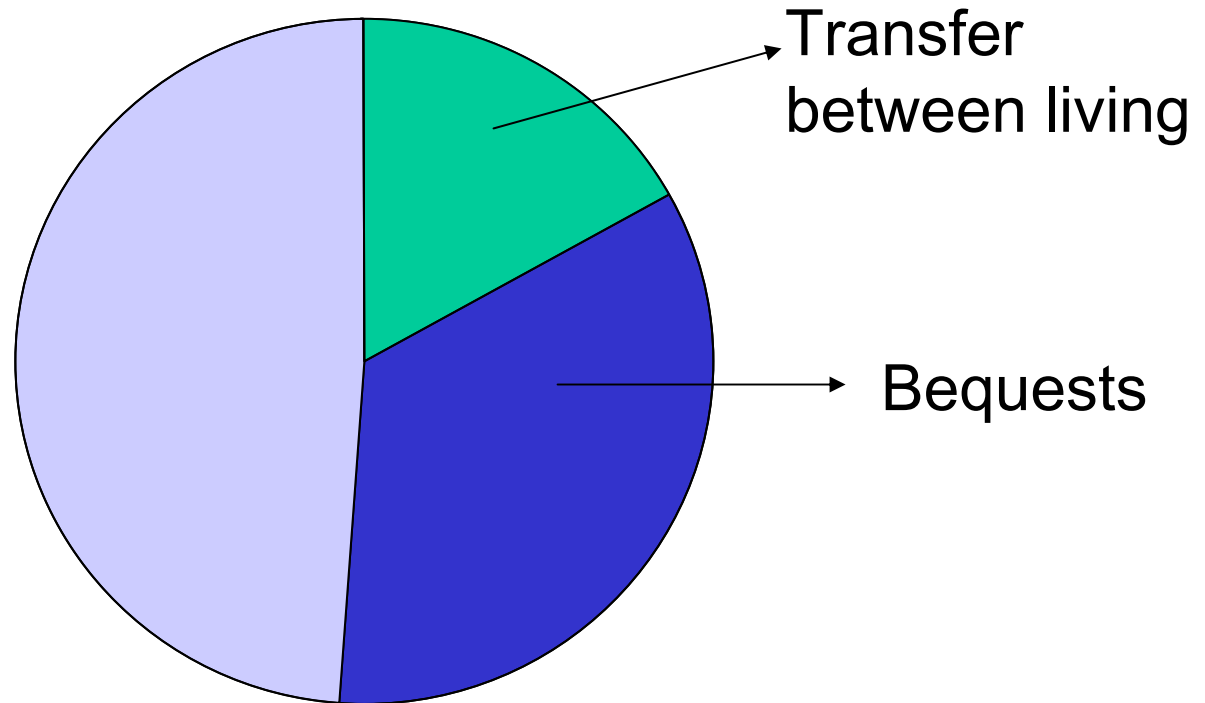
# Teach Your Children Well: Credit Outcomes and Prior Parental Teaching of Money Management

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# Wealth Transfer in the U.S.



51% of U.S. wealth is transferred between generations

(Gale and Scholz, 1994)

# Financial Knowledge Transfer

- Parents don't just transfer wealth, they also transfer financial knowledge and skills to their children (Danes and Haberman, 2007).
- Parental financial teaching can offer a powerful tool for encouraging asset-building behavior.
- But to what extent does parental transfer of financial knowledge influence behavior and financial outcomes later in life?

# Credit Scores and Low Income Households

- For low income families, credit scores more often act as a **barrier** than as an aid.
- Low credit scores **limit access** to the mortgage market and reduce the likelihood of sustaining homeownership.
- Credit card debt **increases the vulnerability** of low-income households to an economic downturn.

(Bostic, Calem, and Wachter, 2005; Mann, 2009)



# Parental Teaching of Financial Skills

- The majority of financial knowledge that children retain is learned through parent teaching and role modeling.
- Children of low-income parents may be at a disadvantage when it comes to parental transfer of financial skills.

(Clarke et al., 2005; Danes & Haberman, 2007; Employee Benefit Research Institute [EBRI], 2001; Neul & Drabman, 2001; O'Neill, 1992; Voydanoff, 1990)

# Research Questions

- Is prior parent teaching of money management associated with credit scores and credit card debt later in life?
- How does the relationship between education level and credit scores differ by prior parent teaching of money management?

# The Community Advantage Program (CAP)

- A secondary-market mortgage pilot program for low- and moderate-income (LMI) households
- CAP qualification: Income under 80% or 120% (if minority) of the area median income
- CAP goals: (1) To demonstrate the credit worthiness of LMI borrowers; (2) To provide evidence that LMI borrows are bankable



# The CAP Survey

- Annual survey conducted since 2003 in 21 states and Washington, D.C.
- Quasi-experimental panel design
  - LMI homeowners are compared to LMI renters
- All data collected by RTI International



# Data and Sample

- 2005 CAP Panel Survey of homeowners
  - (Renter panel data not used in this analysis)
- Credit scores were reported to Self Help by the three major credit bureaus (Equifax, TransUnion, and Experion) at time of loan origination
- Sample population: 2,389 LMI homeowners



# Dependent Variables

- **Credit Score**
  - Measured administratively at origination
  - Continuous
  - Credit Score Range: 499-885
  - Sample Mean: 677.4

# Dependent Variables

- **Total Credit Card Debt**
  - “About how much do you currently owe on all your credit or charge cards?”
  - Sample Mean: \$4,674
  - 283 households (15.1%) report \$0 credit card debt

## Dependent Variables

Credit scores (continuous)  
Credit/store debts (total)

## Independent Variables

Prior parental teaching  
None/not much  
Some  
A lot

## Control Variables

### Respondent characteristics:

Gender	N adults
Employment	Household income
Credit card ownership	Race/Ethnicity
Age	Education
N children	Marital status

### Prior parent characteristics:

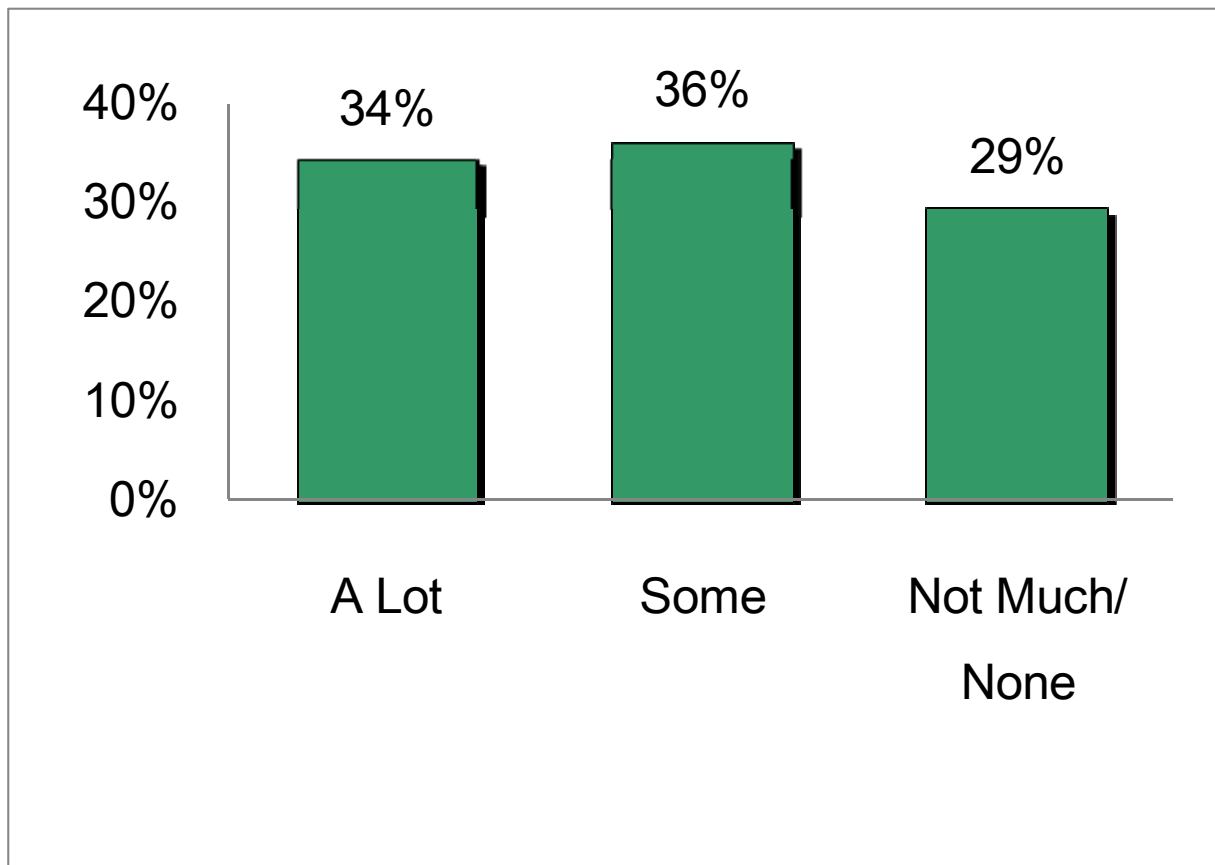
Parent receipt of welfare  
Parent homeownership  
Parent bank account ownership



## Sample Description (N=2,389)

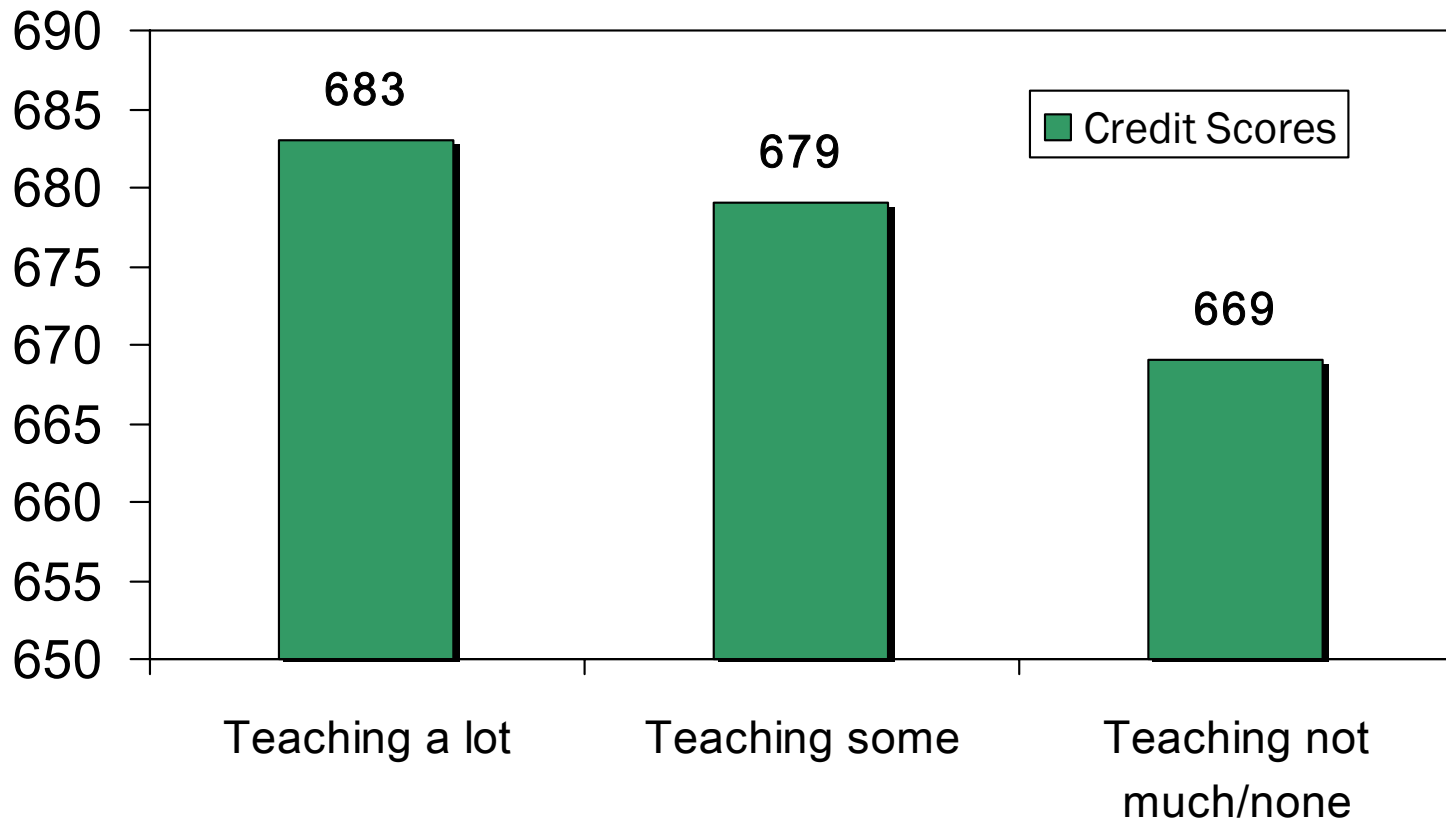
Respondent Characteristics	Mean or %	Range
Age	33.15	18 to 78
Male	52.36%	0, 1
Married	46.50%	0, 1
White	65.76%	0, 1
Household income (\$)	31,643	0 to 98,424
Education		
Less than high school grad.	6.70%	0, 1
High school grad.	19.27%	0, 1
Some college	46.00%	0, 1
BA and more	28.00%	0, 1

# Parental Teaching of Money Management



“How much did your parents teach you about managing money?”

## Average Credit Score by Category of Parental Teaching



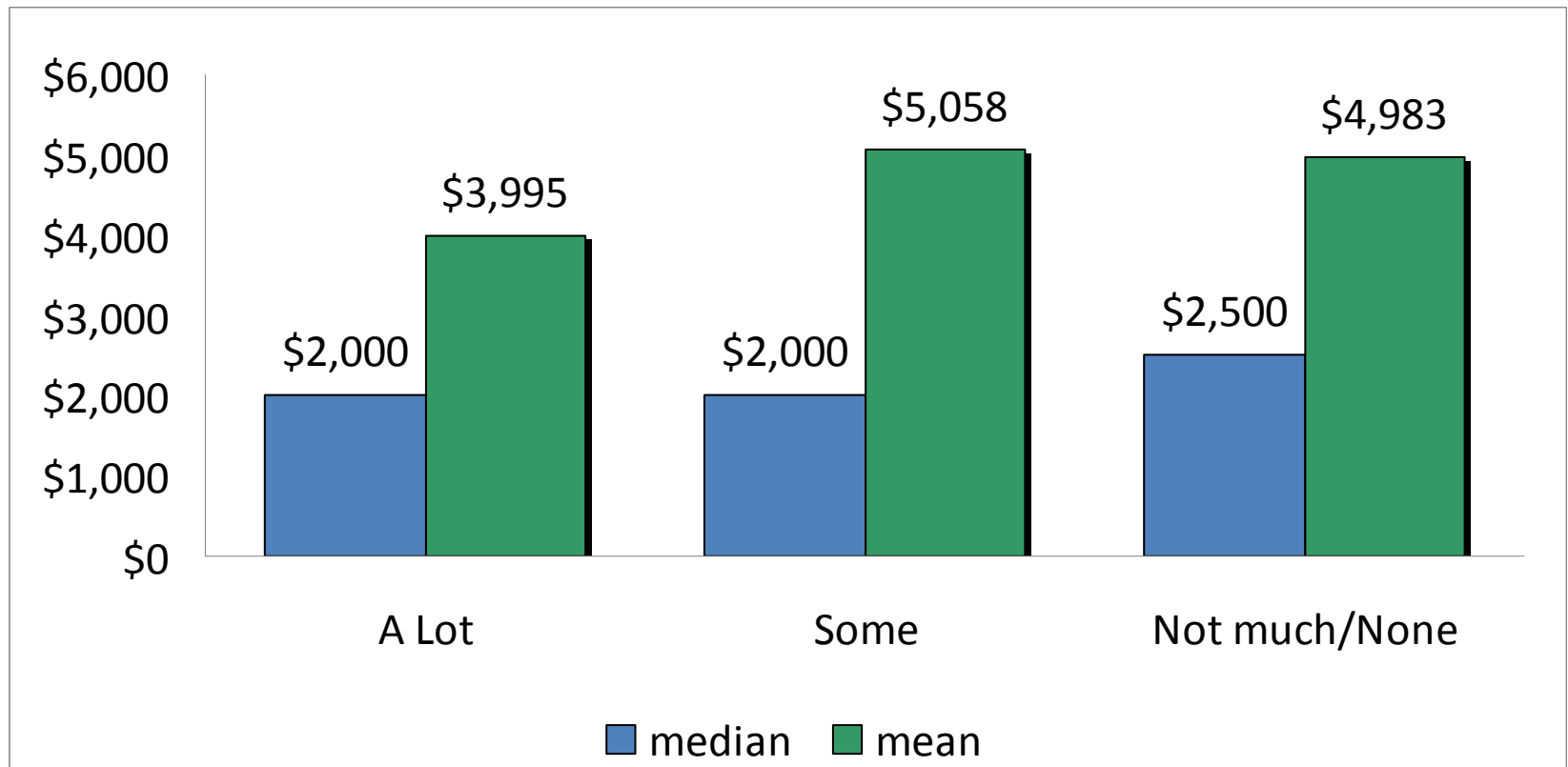


Variables	Credit Score	
	B	SE
Intercept	659.00***	26.09
Age	.083***	0.13
Race/Ethnicity		
(White)		
Black	-46.26***	3.46
Hispanic	-0.04	3.70
Other	-16.20*	6.38
Education		
(<HS)		
HS graduate	8.35	5.03
Some college	7.91	4.81
BA or more	27.59***	5.22
# Children	-6.92***	1.15
Parent Welfare Receipt	-9.05**	3.28
Parental Teaching		
(Not Much/None)		
Some	6.91*	2.87
A Lot	7.56*	2.97
N	2,389	

\* p<0.05 \*\* p<0.01 \*\*\* p<0.001



## Mean and Median Credit Card Debt by Parental Teaching





# Tobit Regression for Credit Card Debt

Variables	Credit Card Debt (log)	
	B	SE
Intercept	-2.79	2.90
Age	0.15*	0.06
Age <sup>2</sup>	-0.002*	0.001
Male	-0.40	0.21
Household Income (log)	0.48	0.26
Parental Teaching		
(Not Much/None)		
Some	-0.36	0.24
A Lot	-0.62*	0.24
Parent welfare receipt	0.58*	0.25
Parent homeownership	0.83*	0.34
Parental bank account	1.16***	0.32
N	1,880	

\* p<0.05    \*\* p<0.01    \*\*\* p<0.001

## OLS Regression for Credit Score by Parental Teachings

Variables	A lot		Some		Not Much/None	
	B	SE	B	SE	B	SE
Intercept	602.03***	41.01	713.57 ***	39.89	661.05 ***	63.85
Age	9.95***	0.22	0.72**	0.25	0.74	0.24
Race/Ethnicity						
(White)						
Black	-50.19***	5.81	-46.32***	5.82	-36.87***	6.47
Hispanic	-5.12	6.56	-3.19	6.36	3.74	6.47
Other	-16.75	9.45	-15.83	12.40	-14.17	12.03
Education						
(>HS grad)						
HS grad	26.46**	8.52	1.89	8.78	-4.00	8.93
Some College	24.66**	8.18	4.78	8.32	-7.16	8.72
BA or more	44.45***	8.64	30.09***	9.07	2.07	9.70
# of children in HH	-11.15***	2.10	-8.04***	1.93	-2.74	2.02
N	820		865		704	

\* p<0.05    \*\* p<0.01    \*\*\* p<0.001



## Parental teaching of financial skills impacts the relationship between education and credit scores

- The relationship between respondent's level of formal education and credit scores differs by prior parental teaching
- For children who received a lot of parental teaching of financial skills early in life, post-high school education is positively related to a better credit score.
- For children who did not receive parental teaching of financial skills, later educational attainment does not impact their credit score.

# Limitations

- Sample of LMI homeowners may not generalize to the whole LMI population
- Measure is self-reported and retrospective; current financial experience may influence individuals' responses
  - However, we tested the difference of individual adjusted income among three groups of parental teaching and found no statistically significant income differences across the three groups



# Summary & Implications

- Parental teaching of money management is associated with financial benefits later in life.
- Strong foundation of financial education from parents and post-high school education associated with better financial outcomes.
- Provides support for initiatives, such as CDAs and financial skills building programs for parents and kids.



## Acknowledgements

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<http://www.ccc.unc.edu>

Fannie Mae

<http://www.fanniemae.com/index.jhtml>

Ford Foundation

<http://www.fordfound.org/>



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