

BANKING ON THE FUTURE: MINOR-OWNED ACCOUNTS AND  
FINANCIAL INCLUSION

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# MOTIVATION

The financial fragility of Americans is a growing concern (FINRA, 2016):

- 1 in 3 households report could probably (or definitely) not come up with \$2,000 if an emergency occurred within the next month
- This statistic rises to 2 in 3 households when looking at those making  $< \$25,000$  per year.
- 1 in 4 households report using high cost non-bank borrowing (payday loans, auto title loans, rent-to-own stores, pawn shops).
- This statistic is the same for the same for those making  $< \$25,000$  and  $\$25,000 - \$75,000$  per year.

# MOTIVATION

- High cost borrowing options often have interest rates over 100%.
- This can potentially create a long-run cycle of debt.
- Might still be optimal, but we know that 2 out of 3 young adults lack basic financial literacy (Lusardi and Mitchell, 2010).
- One strategy: encourage learning about financial management early in life to support future financial decisions.
  - Financial education requirements in high school improve credit scores, reduce delinquency rates, reduce non-student debt (Brown et Al., 2016; Urban et Al., 2017), and improve student loan decisions (Stoddard and Urban, 2018).
  - Another policy lever: experiential learning through early access to bank accounts.

# QUESTIONS

- Question we want to answer: do bank accounts at young ages improve financial capability later in life?
- But there is selection into bank accounts.
  - Minor laws allowing those  $< 18$  to have a non-custodial bank account. Use a difference-in-difference strategy.

## RESEARCH QUESTION

Question: What is the causal effect of early access to solo bank accounts on subsequently being fully banked?

## PRIOR RESEARCH

One paper on causal evidence that early experience with banks improves outcomes (Brown, Cookson, Heimer, 2017):

- Early-life access to financial institutions on American Indian Reservations improves financial behaviors ( $\uparrow$  credit scores,  $\downarrow$  delinquency rates) later in life.
- No within Reservation changes, but cross-Reservation differences in the long-run.

Some evidence that access to accounts increases ownership (Celerier, 2015):

- Deregulation that increases bank branches in low-income counties increases the likelihood individuals are banked and wealth later in life

## PRIOR RESEARCH

Some evidence that there is demand for low-cost bank accounts (Washington, 2006):

- Finds that when states require banks offer low cost account options, this reduces the proportion of low-income minority unbanked households.
- Caps on check-cashing fees reduce the fraction of unbanked households.

# MECHANISMS

- Youth employment:
  - Increase savings, create habit formation of earning
  - Increase future working behavior.
- Experience with financial products to develop skills:
  - Learn by doing: save for goals, monitor accounts, and make a budget.
  - Make low-cost mistakes early.
- Institutional trust:
  - First experience with banks might matter for future participation.
  - Experience safety and convenience of formal accounts.



# MECHANISMS

## Supply Side:

- Startup costs, recruiting more accounts, a different type of population...
- Youth accounts may be more cost than they are worth (overdraft rules, smaller deposit amounts, geographic mobility, teens are a pain,...).
- Accounts may be sticky—allowing youth accounts could generate long-run account holders.
- More state-chartered banks may enter the market. They may crowd out federal banks in the states with laws. May actually lower access for some by age 18.

*I just recently got a job and I obviously need some type of savings or checking account but I want it completely out of my parents' reach*

-Posting on Reddit.com Personal Finance Forum, September 8, 2018

# DATA

## FDIC Un(under) banked survey

- Years 2009, 2011, 2013, 2015. 2017.
- Done in conjunction with the CPS sample.
- Large Samples: over 70,000 surveyed each year.
- Questions about having a checking or savings account, as well as alternative financial survey uses.

# DATA

## Three measures

- Fully Banked: Has checking or savings account, does not use AFS.
- Unbanked: No checking or savings account, may or may not use AFS.
- Underbanked: Has checking or savings account, uses some form of AFS.

## WHY < 29 YOS UNBANKED?

Main reason unbanked	Percent
<b>Do not have enough money</b>	<b>32.39</b>
Do not trust banks	13.70
Account fees too high	10.37
ID, credit, or former bank account problems	5.76
Inconvenient hours	3.97
Avoiding bank gives more privacy	3.33
Account fees unpredictable	2.30
Banks do not offer needed products or services	2.18
Inconvenient locations	2.18
Other or unknown reasons	23.82

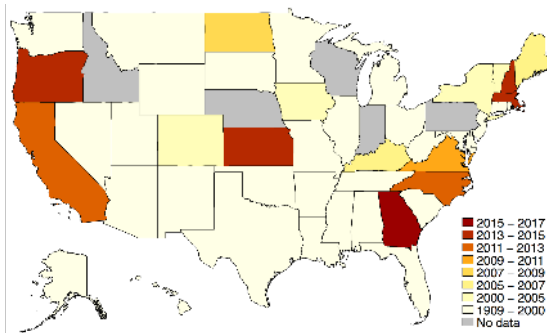
# IDENTIFICATION STRATEGY

## State Banking Laws for Minor Accounts

- Some state laws allow minors to hold a state-chartered bank account without a co-signer.
- Others do not.
- These policies change over time.

Use a difference-in-difference strategy to compare youth within states where the policy was passed before and after, as well as across control states.

# MINOR BANKING LAWS



## PREDICTING LAWS

Dependent Variable=Minor Law

Financial Education Requirement	-0.00317	(0.059)
Governor is Democrat	-0.03390	(0.032)
Unemployment rate	0.00376	(0.020)
State Credit Union Members Per Capita	0.50434	(0.687)
Number of banks per 100,000 people	-0.00024	(0.000)
Medicaid Beneficiaries per 100,000 people	-0.01185	(0.007)
SSI Beneficiaries per 100,000 people	-0.22458	(0.174)
Gross State Product (in 100 millions)	0.00011*	(0.00049)
Food Stamp Beneficiaries per 100,000 people	0.00122	(0.011)
Poverty Rate	0.00146	(0.006)
Population (in millions)	0.02961	(0.067)
Observations	1,030	



# EMPIRICAL STRATEGY

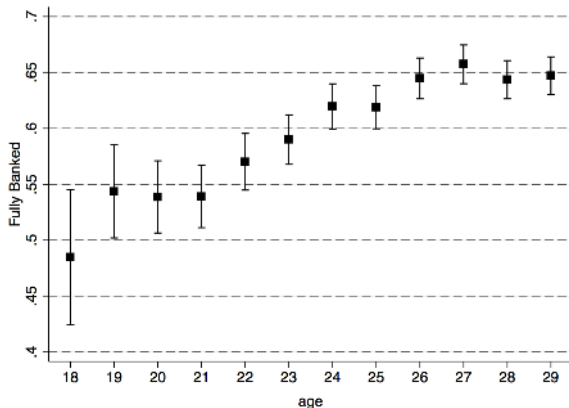
$$Y_{i,s,y,t} = \alpha_0 + \alpha_1 MBL_{s,y} + \alpha_2 X_i + \alpha_3 u_{s,y} + \alpha_4 CULaw_{s,y} + \beta_t + \gamma_s + \delta_y + \epsilon_{i,s,y,t}$$

- Include birth year FEs, survey year FEs, state FEs.
- Drop early treatment states (Goodman-Bacon (2018)).
- Assumption: Parallel trends, no spillovers.

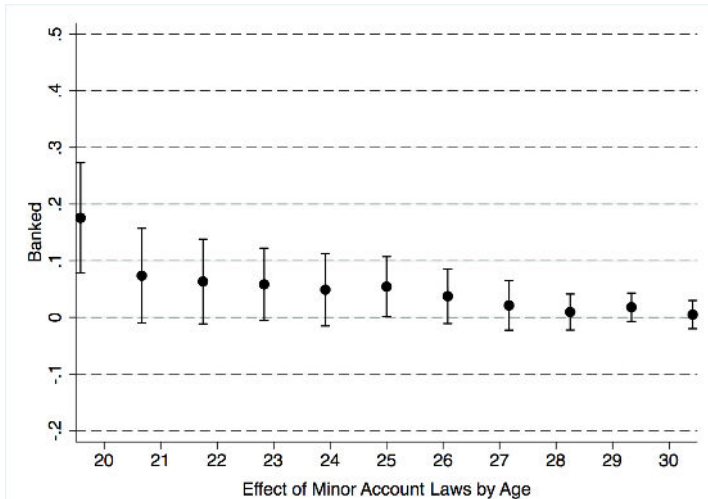
## DIFFERENCES ACROSS STATE POLICIES

	No policy	Policy	All
Fully banked	0.627 (0.484)	0.593 (0.491)	0.604 (0.489)
Unbanked	0.095 (0.293)	0.122 (0.327)	0.113 (0.317)
Underbanked	0.274 (0.446)	0.278 (0.448)	0.277 (0.448)
N	1,342	2,815	4,157

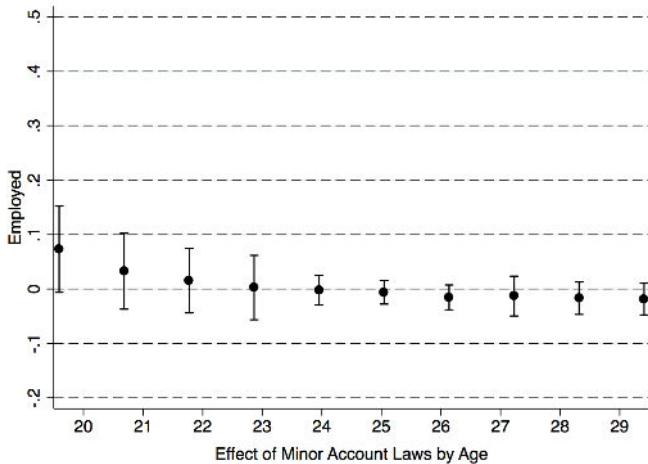
# FULLY BANKED BY AGE



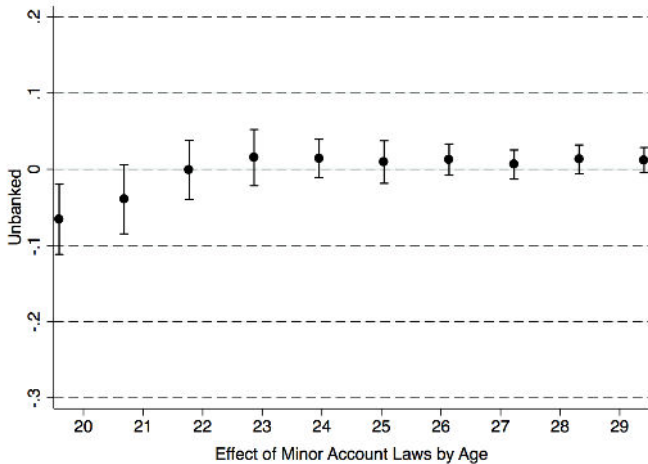
# EFFECTS OF MINOR LAWS ON BANKED BY AGE



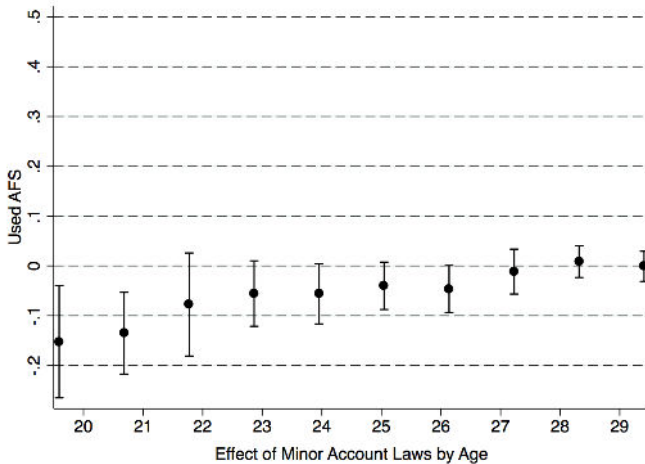
# EFFECTS OF MINOR LAWS ON EMPLOYMENT BY AGE



# EFFECTS OF MBLs ON UNBANKED BY AGE

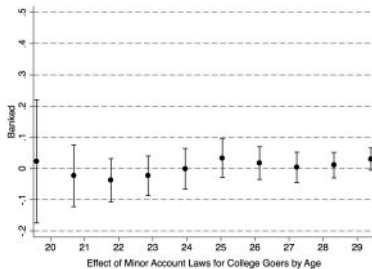


# EFFECT OF MBLs ON AFS USE BY AGE

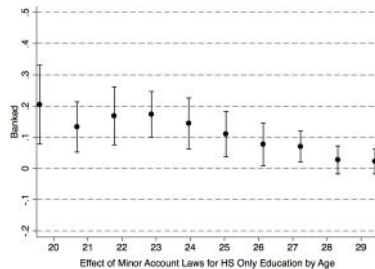


# HETEROGENEITY BY EDUCATION

## College



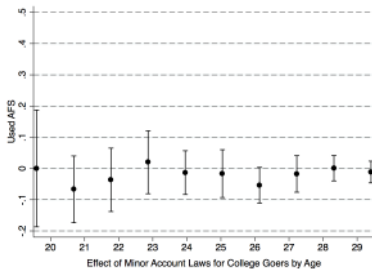
## HS Only



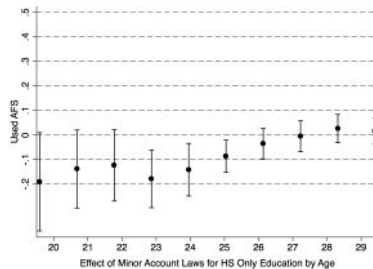


# HETEROGENEITY BY EDUCATION

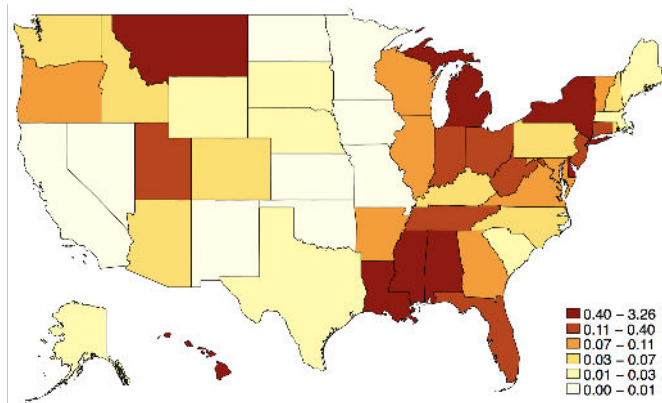
## College



## HS Only

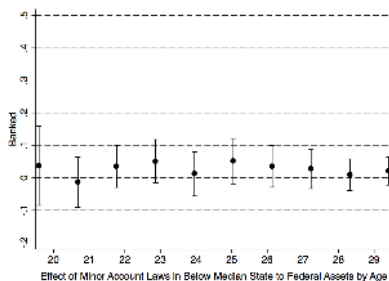


# MAPPING STATE-CHARTERED BANK ASSETS FEDERALLY-CHARTERED BANK ASSETS

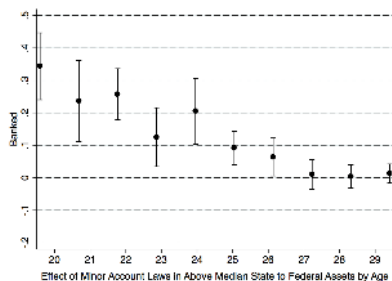


# HETEROGENEITY BY SUPPLY

## Fewer State-Chartered Banks



## More State-Chartered Banks

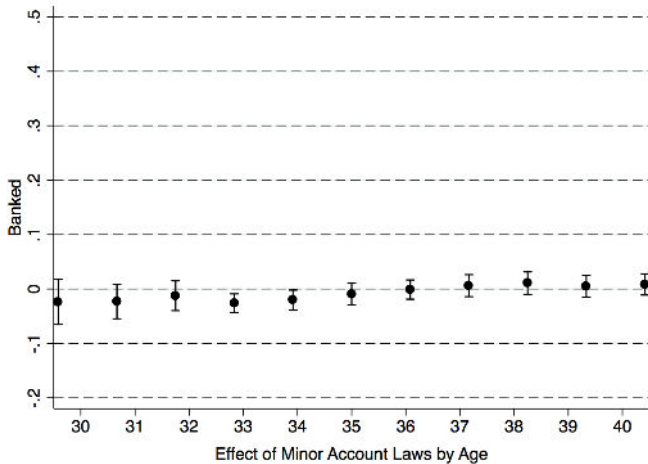


## TESTING FOR PRE-TRENDS

DV =1 if the individual is fully banked

	Age $\leq$ 20	Age $\leq$ 25	Age $\leq$ 29
MBL (t-5)			-0.0379 (0.0282)
MBL (t-4)		-0.0157 (0.0418)	-0.00960 (0.0206)
MBL (t-3)	-0.0747 (0.0791)	-0.0426 (0.0291)	-0.0577** (0.0233)
MBL (t-2)	-0.0784 (0.0850)	0.0282 (0.0309)	-0.0193 (0.0213)
MBL	0.151** (0.0552)	0.0563** (0.0269)	0.00949 (0.0142)
<i>N</i>	644	5,094	14,453

# PLACEBO TEST



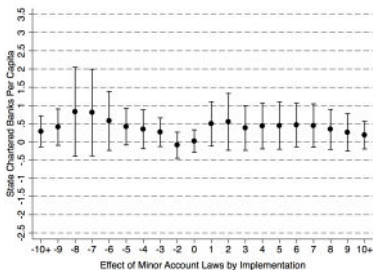
## MORE ROBUSTNESS CHECKS

Results are robust to:

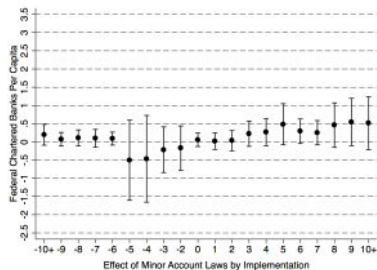
- controlling for financial education requirements,
- controlling for other state economic and demographic characteristics,
- dropping states with credit union law changes,
- controlling for low-cost banking availability laws.
- state linear and quadratic trends

# THERE IS NO SUPPLY-SIDE RESPONSE

## State Chartered Banks



## Federally Chartered Banks



# CONCLUSIONS

- Access to youth accounts improves likelihood of banking fully banked, in the short run.
- This largely operates through a reduction in AFS use.
- By age 26, those who had their first accounts later are no more or less likely to be fully banked.
- The effects are driven by the population who does not attend college.
- Access is also very important.



# CONCLUSIONS

- Are the gains in early 20s enough?
- Policies are low-cost, so may still be worth it.
- Early access to low-consequence products may be well-complemented with financial education.

# CONTACT

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