

PARENTAL TRANSFER OF FINANCIAL KNOWLEDGE AND LATER
CREDIT OUTCOMES AMONG LOW AND MODERATE INCOME
HOMEOWNERS

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Teach Your Children Well:

Credit Outcomes and Prior Parental Teaching of Money Management

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ABSTRACT

Acquiring financial skills during childhood is linked with better savings in adulthood. However, little is known about the effect of parents' teaching on children's financial outcomes in adulthood, particularly among low- and moderate-income (LMI) households. Using Community Advantage Program survey data for 2,389 LMI homeowners, we find that receiving high levels of money-management teaching in childhood is linked to higher credit scores and lower credit card debt in adulthood. Also, the level of parental financial teaching influences the relationship between children's later educational attainment and credit scores. These findings suggest implications for initiatives promoting financial capability for parents and children.

INTRODUCTION

Creating wealth in poor communities has long presented an intractable problem for policymakers. Although growing income inequality during recent decades has left poor households relatively worse off, the income gap only partially explains a much larger and insidious wealth gap that prevents many low- and moderate-income households from building assets and achieving long-term financial stability. The intergenerational transfer of 51 percent of all wealth in the U.S. ensures a narrow concentration of this wealth pool and creates further wealth inequality for poor households (Gale and Scholz 1994). With little or no wealth to pass on to the next generation, lower-income households have fewer opportunities and prospects for economic mobility (Gale & Scholz 1994).

Beyond the direct transfer of wealth, recent research has suggested that parents are also influential in transferring financial literacy to their children (Clarke et al. 2005; Danes and Haberman 2007; Employee Benefit Research Institute [EBRI] 2001; Neul and Drabman 2001; O'Neill 1992; Voydanoff 1990). In addition, it is believed that parental involvement is central to children's acquisition of financial skills and habits that carry into adulthood (Danes and Haberman 2007; Kotlikoff and Bernheim 2001). Given the importance of financial literacy to savings behavior and financial decisionmaking, research suggests that parental financial teaching offers one tool for encouraging asset-building behavior. The challenge for researchers and policymakers has been to identify the extent to which parental transfer of knowledge influences behavior and financial outcomes later in life.

Existing financial education efforts focus primarily on the adult population, providing instruction on retirement savings, home purchase, and general principles of money management. However, schools are increasingly providing financial education, and goals for financial

competency are attached to many children's savings programs. In fact, a few programs have begun involving parents in financial education initiatives targeted to their children and vice versa. The rationale is to take advantage of intra-household communication to benefit both children and parents. Unfortunately, very few empirical studies exist to inform such initiatives.

Little is also known about the specific impact of parental teaching early in life on children's financial behavior in adulthood. Using rich data collected through the Community Advantage Secondary Market Program (CAP), the analysis in this article is able to directly examine the relationship between parent teaching of money management skills and children's financial outcomes as adults. While the resulting analysis must be considered within the context of CAP, it offers consistent evidence that parental teaching is associated with both improved credit scores and reduced levels of credit card debt in adulthood. Moreover, the relationship of formal education on credit scores is mediated by the level of parental financial teaching, suggesting that parental instruction and post-high school education may each strengthen the other's value.

LITERATURE REVIEW

The Role of Credit among Low-Income Households

In recent years credit reports and credit scores have become a main gatekeeper on the road toward building wealth (Barakova et al. 2003; Bostic, Calem, and Wachter 2005). Credit scores are used to determine mortgage qualifications, car loan terms, and auto insurance rates. Increasingly, potential landlords and employers also use credit scores and credit reports when they are considering potential applicants (Fellowes 2006). Even utility companies use credit scores to determine required deposits. In this way, credit scores play a key role in allowing access to many asset and wealth building opportunities. For low income families, however,

credit scores more often act as a barrier than as an aid (Avery et al. 1996; Bostic, Calem, and Wachter 2005; Rosenthal 2002).

With regard to homeownership, which is a major component of wealth building for LMI populations, a poor credit score places individuals at high risk of being refused a loan or excluded from mortgage products with favorable terms. Not only do wealth constraints keep LMI households from accumulating the funds for a downpayment, but low credit scores limit access to the mortgage market and reduce the likelihood of sustaining homeownership once a mortgage is attained (Avery et al. 1996; Bostic, Calem, and Wachter 2005).

Further, credit quality (e.g., incidence of bankruptcy and loan delinquency) has become an increasing problem in the last two decades because household credit ratings have declined (Bostic, Calem, and Wachter 2005). LMI populations are at a high risk for both low wealth and poor credit quality (Bostic, Calem, and Wachter 2005).

Credit card debt is another important indicator of household financial well being. Credit debt constraints create a financial burden for the household, adding to other household debt (Boushey and Weller 2006). Using the Survey of Consumer Finances, Bucks et al. (2009) find that the average credit card balance in the U.S. rose considerably between 2004 and 2007. Interestingly, since 2001, credit card debt has decreased for low-income families while at the same time, families with higher incomes and higher net worth have continued to see growing credit card balances (Bucks, Kennickell, and Moore 2006; Bucks et al. 2009). However, this high-cost debt continues to be a challenge for LMI households in light of stagnating incomes; the amount of credit card debt relative to disposable income has significantly increased for LMI households (Boushey and Weller 2006). For half of the lowest income quintile (below \$23,000), credit card debt makes up 10 percent of household income (Mann 2009). By 2005, the average

credit card debt reached \$8,650 for LMI households (in this survey, annual household income was between 50 percent and 120 percent of the local median income; Draut et al. 2005). Bird, Hagstrom, and Wild (1999) note that with added credit card debt, low-income households are more vulnerable to an economic downturn and will hold this expensive debt for years (Mann 2009). Credit card debt levels are still high for low-income populations despite the recent decrease in balances, giving reason for concern and importance for use in this study.

Financial Education for Adults and Children

Credit constraints both reflect and perpetuate wealth inequality and increase the financial vulnerability of low-income households. In recent years, there has been growing interest in the promotion of financial education for adults and children as a means to improve the financial outcomes of these families. Many versions of financial education interventions have been developed and implemented with various approaches, the majority focused on either educating adults in the community or children in schools. Programs such as Individual Development Accounts (IDAs; Sherraden 1998) and Financial Links for Low-Income People (FLLIP; Zhan, Anderson and Scott 2006) address LMI adults in their community, while the I Can Save Program (Sherraden et al. 2007) connects with children and their parents in elementary schools to increase the financial capability of LMI households. The Save for America Program (Save for America 2007) and the Credit Where Credit is Due School Banking Program (CWCID; Credit Where Credit is Due, Inc. 2009a, 2009b) provide school-based education to children on a national and local scale, respectively. The implementation of K-12 programs not only delivers universal financial education to children at school, but also provides early access to financial institutions and incorporates savings behavior into children's lives at an early age. These and other

programs aim to capitalize on the idea that the familiarity and comfort of using financial instruments in childhood is linked to greater savings as an adult (Kotlikoff and Bernheim 2001).

The programs mentioned here highlight the numerous efforts not only to increase financial literacy for adults and children through education but also to start at a young age and include parents in the process. Given the relatively recent implementation of these interventions, however, little is yet known about the short- and long-term effects of financial education programs on financial behaviors and outcomes.

Intergenerational Transfer of Financial Skills and Habits

As described above, the wealth gap is exacerbated by intergenerational transfers of wealth. However, parents don't only pass on wealth to their children but also pass on financial know-how. As the wealth gap expands, it is important to investigate avenues by which LMI populations can transfer financial knowledge and skills to their children, particularly as they may have little or no wealth to transfer. Although financial skills can be taught in formal educational settings, research demonstrates a strong link between the home environment and children's acquisition of financial skills; the majority of financial knowledge that children retain is learned through parent teaching and role modeling (Clarke et al. 2005; Danes and Haberman 2007; Employee Benefit Research Institute [EBRI] 2001; Neul and Drabman 2001; O'Neill 1992; Voydanoff 1990). In addition to parental involvement, personal experience rates highly as a source for financial knowledge (Hilgert, Hogarth, and Beverly 2003; Kotlikoff and Bernheim 2001). These findings indicate that parental involvement is central to children's learning of financial skills and habits.

Research suggests that children of low-income parents may be at a disadvantage when it comes to parental transfer of financial know-how, however. In a 2001 parent survey, researchers

found an income-based gap in parental money-management instruction; as compared to middle- and upper-income parents, low-income parents reported feeling less prepared to teach financial skills to their children and to serve as role models of good financial habits (EBRI 2001). In a comparison of low- and high-income parents, a greater proportion of high-income parents rated themselves as doing a good job managing money and understanding financial matters than did low-income parents, indicating that low-income parents had less confidence in their financial skills (EBRI 2001). Moreover, parents with negative self-assessments of money management skills were also more likely to report feeling uncomfortable talking to their children about financial matters (EBRI 2001).

Beyond parental confidence and knowledge regarding money management, both a parent's education level and children's interest in future education seem to be linked with higher financial literacy in students (Murphy 2005; Tennyson and Nguyen 2001). Researchers examining this relationship with a sample of 277 black college students found that participants whose parents had more than a high-school diploma scored higher than students whose parents had not graduated from high school (Murphy 2005). Similarly, a study with a sample of 1,643 high-school students found a relationship between parents' education levels and the students' financial literacy; students whose parents did not have a high-school diploma scored lower on a personal finance literacy questionnaire than students whose parents had a high-school diploma or higher (Tennyson and Nguyen 2001). In addition, high-school students who had no plans for postsecondary education scored lower than students who were planning to pursue additional training or higher education (Tennyson and Nguyen 2001). In summary, based on these findings, it seems that children in low-income families, especially those whose parents do not

have a high-school diploma or equivalency degree, may be at risk for reduced financial teaching at home.

As presented in the literature review above, parents play a crucial role in children's financial literacy as the main source of both transferred wealth and financial skills; however, the mechanism linking parental teaching and child financial outcomes is still unclear. The purpose of this study is to examine the relationship between parental teaching of money management skills in childhood and the adults' financial outcomes later in life, measured by credit card debt and credit scores, both important indicators of financial circumstance and opportunities for LMI households.

This study uses data from the 2005 Community Advantage Secondary Market Program (CAP) survey to examine the association between the level of parental teaching of money management skills that the LMI respondents received in childhood and their present-day credit outcomes. Specifically, this study seeks to address the following research question: Is prior parent teaching of managing money related to children's credit outcomes as adults, measured by credit scores and credit debt? We hypothesize that, as compared to respondents who received little or no financial education from their parents, respondents who received more parental teaching of money management will have higher credit scores and less total debt. In addition, this study tests whether there is an interaction between the level of education obtained and childhood parental teaching of money management on credit scores.

METHOD

Data and Sample

This study uses data from the Community Advantage Home Loan Secondary Market Program (CAP) survey. CAP is a secondary-market mortgage pilot program for LMI households. The program was started in 1994 by the Self-Help Credit Union in Durham, North Carolina, a community development financial institution. After early local success, the program expanded nationally in 1998 through a partnership with both the Ford Foundation, which provided Self-Help with a \$50 million grant, and Fannie Mae, which securitized Self-Help loans (Self-Help n.d.). Since its inception, CAP has loaned \$4.6 billion to more than 50,000 homeowners in 47 states and the District of Columbia (Self-Help n.d.; 2008). Currently, CAP has the largest concentration of loans in North Carolina, with large numbers of loans also in California, Texas, Oklahoma, Ohio, South Carolina, Georgia, Florida, Illinois, and Virginia.

Self-Help purchases 30-year, fixed-rate mortgages to enable LMI borrowers to obtain prime financing for homeownership by providing flexible underwriting features such as low or no down payments, a waiver of private mortgage insurance, and acceptance of limited credit or work histories. To qualify for CAP, applicants must meet at least one of three criteria: (a) have an income under 80 percent of the area median income (AMI); (b) have racial/ethnic minority status and income below 120 percent of AMI; or (c) purchase a home in a high minority (greater than 30 percent concentration of minority populations) or low-income census tract area (less than 80 percent AMI) and have an income below 120 percent of AMI. While the resulting sample of homeowners is not representative of the broader population, the strength of the CAP dataset is that it provides rich information on participants' financial literacy and assets.

Since 2003, the Center for Community Capital has conducted an annual survey of a sample of CAP homeowners. The CAP sample ($n=7,223$) is a sub-set of a target population of about 29,000 Self-Help loan recipients who originated loans between Sept 1999 and May 2003. These 7,223 were selected for the survey because Self-Help already owned their loans at the start of the data collection period. Among these 7,223 cases, 3,743 owners completed the baseline interview (Riley and Ru 2009), conducted March 2001 to January 2004.

Our sample was based on the 2,917 respondents who completed the Wave 3 CAP survey¹ collected in 2005. Among this sample, 528 cases were removed using listwise deletion because of missing data for dependent or independent variables.² Most of the eliminated cases were missing values for the variables representing prior parent bank account ownership ($n=354$), prior parent teaching on managing money ($n=223$), prior receipt of public assistance by parents ($n=253$), and credit score ($n=171$). After checking the distribution of variables, another five extreme cases of household income and credit score were removed from the sample. (Extreme outliers were identified as four respondents with household income exceeding \$100,000, and one respondent with a credit score less than 400). The final analytic sample includes 2,389 respondents with complete information.

Measurement

This study includes two dependent variables representing credit outcomes: credit scores and total credit debt. Credit scores are treated as a continuous measure in this study, and were measured when the respondents borrowed from CAP. Credit scores were reported by the three major credit bureaus, Equifax, TransUnion, and Experian. Total credit debt, that is, debt from credit cards and store credit, was measured at the Wave 3 annual survey in 2005. Responses are

recorded for the subsample of 1,880 respondents who have at least one credit or store card. Because of its skewed distribution, values for total credit debt were logged in the analysis.

The study's independent variables include respondent characteristics, prior parental characteristics, and respondents' prior experiences with parental teaching of money management. Respondent characteristics³ include: (a) *gender* (1=male; 0=female); (b) *age* (in years); (c) a set of dummy variables indicating *race/ethnicity*, white (the reference category), black, Hispanic, and other race/ethnicity; (d) a set of dummy variables for *marital status*, partnered, married (the reference category), separated/divorced/widowed, and never married; (e) a set of dummy variables for *education level*, do not have high school diploma, have a high-school diploma or GED (the reference category), some college, and bachelor's degree or more; (f) a dichotomous variable for *the employment status* of respondent (1=employed; 0=non-employed); (g) *number of children* in the household; (h) *number of adults* in the household; and (i) *total household income*, which was defined as the total annual income (this value was logged in analysis because of the skewed distribution).

Prior parental characteristics, collected at the CAP Wave 3 survey, describe the household's socioeconomic status when the respondent was a child: (a) a dichotomous measure of whether the parent ever received public assistance (1=yes; 0=no); (b) a dichotomous measure of whether the parents were ever homeowners (1=yes; 0=no); and (c) a dichotomous measure of whether the parent owned a bank account (1=yes; 0=no). Respondents' experiences with parental teaching of money management in childhood is measured with a *prior parent teaching of managing money* indicator variable, describing the amount of teaching the respondent reports having received growing up: a lot, some, and none/not much (the reference category).

Analysis

To establish the relative representativeness of the CAP sample, we first compare the CAP homeowner sample used in this study to the general U.S. population of LMI homeowners, based on data obtained from the American Household Survey (U.S. Census Bureau 2008). Comparison is made on key sample characteristics such as age, gender, race, education, and income.

As previously noted, our first research question examines the relationship between prior parental financial management instruction and children's later credit outcomes as adults. Because the distribution of credit scores approached a normal curve (mean=677.40; mode=677.00; skewness=-0.09; kurtosis=-0.36), we use ordinary least square regression (OLS) to predict credit scores. With respect to the measure of credit debt, the censored distribution of debt values leads us to use Tobit regression.⁴ Next, in order to test whether there is an interaction between level of education obtained and childhood parental teaching of money management on credit scores, we conducted three separate OLS regression models for each category of parental teaching.

In all regression models used for this study, we control for respondents' characteristics and prior parental characteristics. In addition, the appropriate sampling weights (Riley and Ru 2009) were applied for the OLS and tobit analyses. Therefore, findings reported in the study are generalizable to the 29,000 borrowers who received Self-Help loans originating between September 1999 and May 2003.

RESULTS

Comparison of CAP Homeowner Sample to General LMI Homeowners in the United States

The American Household Survey (AHS), which is conducted by the U.S. Census Bureau for the Department of Housing and Urban Development (HUD), is the largest regular national housing survey in the United States. Every two years, the survey collects information on the characteristics of approximately 55,000 U.S. housing units and the households that occupy those units. In order to describe the degree to which the CAP sample is representative of the national LMI homeowner population, we compared the CAP homeowners in this study with the general LMI homeowner population described by the 2003 AHS. Applying the income qualification for CAP eligibility, Table 1 includes all 2003 AHS homeowners with income equal to or less than 80 percent of the AMI, or less than 120 percent of the AMI for minority households.

The comparison of CAP homeowners in this study with the 2003 AHS homeowners reveals many similarities and some interesting differences. Specifically, the CAP and AHS samples have similar profiles in terms of racial/ethnic composition, marital status, number of children and household members, and annual household income. However, CAP homeowners are more likely to be employed and have higher educational attainment.

[Insert Table 1 about here]

Sample Characteristics of CAP Homeowners

Table 2 summarizes the respondent characteristics, prior parent characteristics, and credit outcomes of the 2,389 CAP homeowners used in this study. The majority of the CAP sample is

male, white, married, employed, and has some college education. Respondents' average age is 33 years, and the mean annual household income is \$31,643.

The CAP sample showed a relatively even distribution of prior parent teaching, with 34 percent of the sample reporting receiving *a lot* of parental instruction regarding money management, whereas 36 percent report *some* prior parental teaching and 29 percent report they received *none*. When asked about their parents' characteristics during the respondent's childhood, the majority of the sample report their parents owned a home and owned a bank account, but were not welfare recipients. Regarding respondents' credit outcomes as adults, the average credit score is 677, with scores ranging from 499 to 885. The mean of total credit card debt is \$4,671, with a range of \$0 to \$50,000.

[Insert Table 2 about here]

Does Credit Score and Total Credit Debt Differ by Parental Teaching of Money Management?

Table 3 reports the results from OLS regression for credit scores and Tobit regression for total credit debt. Respondents who received a lot or some parental instruction of money management in childhood have credit scores with 7.6 and 6.9 more points ($p < .05$; $p < .05$, respectively) than respondents who received no financial instruction from their parents. Further, respondents who reported receiving the highest level of prior parental teaching also have less credit debt ($p < .05$) than respondents who received no prior parental teaching. These results support our hypothesis: respondents who received more parental teaching of managing money have higher credit scores and less total credit debt.

In addition, Table 3 includes interesting findings related to important predictors of credit outcomes among LMI homeowners. Older respondents are not only more likely to have higher credit scores but also more likely to have larger total credit debt. Black and other race respondents have credit scores with 46 and 16 fewer points than white respondents, respectively. The credit scores of respondents with a bachelor's degree or greater educational attainment were an average of 28 points higher than the credit scores of respondents with less than a high-school degree. However, we found no significant relationship between respondents' race/ethnicity and total credit debt, or between respondents' education levels and total credit debt. Household income is not significantly related to either credit scores or total credit debt.

Regarding prior parental characteristics, respondents whose parents received public assistance in the past also had significantly lower credit scores and less total credit debt. Prior parental homeownership and prior parent bank account ownership were also significantly associated with total credit debt, but not credit score.

[Insert Table 3 about here]

In order to test whether there is an interaction between level of education obtained and childhood parental teaching of money management on credit scores, we conducted three separate OLS regression models for each category of parental teaching. In particular, we are interested in whether parent teaching enhances the impact of higher levels of education and vice versa. Where post-high school education likely improves students' abilities to analyze the consequences of alternative financial decisions, parent teaching may supplement this process by increasing the likelihood that the student applies these skills to the financial sphere.

Table 4 summarizes the results of three separate OLS regression models. Among respondents who report receiving *a lot* of prior parent teaching, those who also report having a bachelor's degree (or more), some college, or a high school diploma have credit scores that are 44, 25, and 26 points higher, respectively ($p < .001$; $p < .01$; $p < .01$), than respondents reporting the same level of prior parent teaching but who had less than a high school education. Among respondents who report *some* prior parent teaching of money management, those who also reported having earned a bachelor's degree (or more) have credit scores that are an average of 30 points higher ($p < .001$) than respondents reporting *some* parent teaching but less than a high school education. However, among respondents who report receiving *no* parent teaching of money management, we found no significant differences in credit scores between respondents with less than a high school education and respondents who had attained higher levels of education.

These results imply that the relationship between education and credit scores does differ by the level of prior parent teaching of money management. The greater the amount of prior parent teaching, the stronger the relationship between a child's ultimate educational attainment and credit score as an adult. That is, the effect on credit scores of prior parental financial teaching is reinforced by the attainment of post-high school education. However, educational attainment is not associated with credit scores for respondents who received no financial education from their parents during childhood. Therefore, without prior parent teaching of money management, a respondent does not appear to experience a significant benefit to his or her credit score from acquiring higher levels of formal education.

Table 4 also reports several interesting findings with respect to the included covariates. Black respondents have significantly lower credit scores than white respondents across all levels

of prior parent teaching of money management. Respondent's age and the number of children in the household are significant predictors of credit score among respondents who report receiving *a lot* or *some* prior parental teaching, but not for respondents with *no* prior parental teaching.

[Insert Table 4 about here]

While the empirical results above offer evidence suggesting that parental teaching of money management improves credit and debt outcomes, these results must also be considered in light of the limitations to empirical analysis. First, the measure of prior parent teaching of money management is self-reported, subjective, and retrospective, asking respondents to recall the amount of money management instruction given by their parents. It is plain that the amount and nature of parental financial instruction could vary widely throughout a child's upbringing. Additionally, there is a reasonable suspicion that intervening life events may color these recollections. For instance, it is possible that current financial experience may influence individuals' responses to the survey question. To explore these concerns, we tested the difference of individual adjusted income among three groups of parental teaching, and we found no statistically significant income differences across the three groups ($F=1.56$; $p=0.21$). Moreover, other measures reflecting current financial experience such as employment do not appear to strongly determine either credit scores or credit debt within the CAP sample.

A second and related concern is that the measure of parental teaching may capture other aspects of the individual's upbringing (i.e., wealth) rather than financial instruction specifically. Because of this concern, this study includes three additional retrospective measures regarding prior parent economic status (receipt of public assistance, homeownership, and bank account

ownership) as covariates to predict credit outcomes (credit score, total credit debt). Thus, the impacts of parental teaching on credit outcomes are specifically tested by controlling for the aspects of the respondents' economic status during their childhood.

In order to ensure generalizability of these results to the entire Self-Help CAP population (approximately 29,000 households), sampling weights are applied to this analytic sample. However, these results are based on a sample of homeowners and may not represent LMI households as a whole, particularly those who are not in a financial position to own a home or who do not have access to loans on Self-Help terms. In future research, we hope to explore this further to increase our understanding of the relationship between parental teaching and child financial outcomes for all LMI households.

DISCUSSION

Over the last decade there have been substantial and growing calls to increase financial education for both parents and youth and to further promote children's development accounts to facilitate savings and asset accumulation beginning in childhood. A number of proposals have been introduced both at the federal and state level that vary in terms of structure and funding (Cramer, O'Brien, and Boshara 2007). However, despite these proposals, there has been little empirical evidence about the effect of parental teaching of money management on financial outcomes in adulthood. Given the growing interest in financial education as a part of asset building strategies, policymakers need to know if parental transfer of financial skills has an effect later in life. This study provides some important information to start filling these critical information gaps.

We have conducted the first empirical investigation to examine the relationship between parental teaching of money management skills and children's financial outcomes later in life

measured by credit score and credit card debt. We use a large sample of LMI mortgage holders who participated in the Self Help Community Advantage Secondary Market Program.

Our study has two major unique contributions. First, our study offers the first broad look at the impact of parental teaching of money management on financial outcomes later in life. Second, the analysis includes credit scores as an outcome measure. The empirical results suggest that parental teaching of money management skills early in life is associated with positive financial outcomes in adults. Study members who reported that their parents taught them a lot about money management early in life were found to have higher credit scores and lower credit card debt. These results are in line with the literature presented earlier in this paper that documented the importance of early childhood financial education, whether formal or informal, at home or at school and financial outcomes as adults (Danes and Haberman 2007; Kotlikoff and Bernheim 2001; O'Neill 1992).

Extending this result, the relationship between parental teaching of money management and credit scores later in life appears to vary by educational attainment. In the absence of early parental teaching, post-high school education has little effect on credit score. However, when parents teach their children money management skills early in life, obtaining a bachelor's degree is associated with higher credit scores. This interaction of parental teaching early in life with later post-high school education suggests that higher education alone may do little to improve credit scores later in life. Getting both a strong foundation of financial education from parents and post-high school education seems to provide the skills and knowledge needed to obtain better financial outcomes.

The existing literature suggests that children gain more knowledge about money management from their parents than from any other source (Clarke et al. 2005; EBRI 2001; Neul

and Drabman 2001; O'Neill 1992; Voydanoff 1990). However, low-income parents report feeling less confident than middle- and upper-income parents about their ability to teach this to their children and may be less likely to try (EBRI 2001). Current initiatives that promote financial capability for parents and their children, such as children's development accounts, have sought to remedy this issue by involving both children and parents in the financial education process. The analysis in this article offers the first attempt to examine the logic behind this strategy, and suggests that such programs may be a critical policy tool to improve children's later financial outcomes and their opportunities to build financial stability. Beyond providing substantive financial content, getting parents and children to talk about financial issues and the importance of financial literacy may do more to impact the child's long-term financial future.

ENDNOTES

1. The Center for Community Capital developed the sampling weights for the Wave 3 CAP survey. The use of these sampling weights corresponds to the 29,000 CAP borrowers whose loans originated between September 1999 and May 2003 (Riley and Ru, 2009).
2. The listwise deleted cases are more likely to be non-White and have less education than the cases included in the analysis. However there are no significant differences in marital status and income between the deleted cases and analytic sample.
3. Household income and age were measured at loan origination, when credit scores were measured. Other individual characteristics were measured at the CAP baseline (Wave 1) survey, collected between July 2003 and February 2005.
4. Among the 1,880 cases in the analytic sample for credit debt, 283 cases (15.1%) were censored at \$0.

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TABLE 1*Comparison of the CAP Homeowners Sample with American Household Survey Homeowners*

	CAP Homeowners (N=2,389)	AHS Homeowners (N=1,530)
Male (%)	52.4	52.8
Race/ethnicity (%)		
White	65.8	66.7
Black	18.4	16.7
Hispanic	12.4	10.2
Others	3.4	6.4
Education (%)		
Less than high school diploma	6.7	16.2
High school diploma	19.3	32.4
Some college	46.0	30.4
Bachelor's or more	28.0	20.9
Employed (%)	93.1	66.4
Marital status (%)		
Married/partnered	57.0	49.0
Divorced/separated/widowed	20.2	32.9
Single	22.8	18.1
Number of household members (%)		
One	23.0	26.7
Two	30.8	28.2
Three	20.1	18.1
Four and more	26.0	27.0
Number of children in household (%)		
None	49.7	56.7
One	22.9	19.1
Two and more	27.4	24.3
Annual household income (%)		
Less than \$10,000	0.5	8.1
\$10,000 -- \$19,999	10.6	13.9
\$20,000 -- \$34,999	57.8	38.7
\$35,000 -- \$49,999	25.5	28.2
\$50,000 -- \$74,999	4.9	9.7
\$75,000 and more	0.6	1.4

TABLE 2
Sample Characteristics of CAP Homeowners (N=2,389)

Variables	N	Percent or Mean (s.d.)	Range
<i>Respondent Characteristics</i>			
Age	2,389	33.15 (9.67)	18 - 78
Male	1,251	52.36	0, 1
Race/ethnicity			
White	1,571	65.76	0, 1
Black	440	18.42	0, 1
Hispanic	297	12.43	0, 1
Other	81	3.39	0, 1
Education			
Less than high school diploma	160	6.70	0, 1
High school diploma	461	19.27	0, 1
Some college	1,099	46.00	0, 1
Bachelor's or more	669	28.00	0, 1
Marital status			
Married	1,111	46.50	0, 1
Partnered	251	10.51	0, 1
Divorced/widowed	483	20.22	0, 1
Never-married	544	22.77	0, 1
Employed (yes)	2,225	93.14	0, 1
Number of household children	2,389	0.91 (1.11)	0 - 6
Number of household adults	2,389	1.75 (0.77)	1 - 9
Yearly household income (\$)	2,389	31,643 (11,356)	0 – 98,424
Credit card ownership (yes)	1,877	78.57	0, 1
<i>Prior Parent Characteristics</i>			
Parental teaching on managing money			
A lot	820	34.32	0, 1
Some	865	36.21	0, 1
None/not much	704	29.47	0, 1
Parent welfare (yes)	399	16.70	0, 1
Parent homeownership (yes)	1,992	83.38	0, 1
Parent bank account (yes)	1,950	81.62	0, 1
<i>Credit Outcomes</i>			
Credit scores	2,389	677.40 (59.67)	499 – 885
Total credit debt (\$) ^a	1,880	4,674 (6,143)	0 – 50,000

^a Among respondents who have a credit card

TABLE 3*OLS regression for Credit Scores and Tobit regression for Total Credit Debt among CAP Homeowners*

Variable	Credit Scores		Total Credit Debt (Log)	
	Estimate	S.E.	Estimate	S.E.
Intercept	659.00***	26.09	-2.79	2.90
Age	0.83***	0.13	0.15*	0.06
Age ²	---	---	-0.002*	0.001
Male	0.94	2.63	-0.40	0.21
Race/ethnicity				
(White)				
Black	-46.26***	3.46	0.22	0.26
Hispanic	-0.04	3.70	-0.29	0.34
Other	-16.20*	6.38	0.42	0.39
Education				
(< High school grad.)				
High school grad.	8.35	5.03	-0.05	0.60
Some college	7.91	4.81	0.28	0.54
BA and more	27.59***	5.22	-0.47	0.57
Marital status				
(Married)				
Partnered	-0.82	4.02	0.40	0.28
Divorced/widowed	-2.41	3.88	0.03	0.32
Never-married	3.79	3.53	0.16	0.28
Employed	7.85	4.55	0.32	0.38
Number of household children	-6.92***	1.15	0.13	0.09
Number of household adults	-2.76	1.59	0.06	0.19
Household income (log)	-0.52	2.43	0.48	0.26
Parental teaching				
(None/not much)				
Some	6.91*	2.87	-0.36	0.24
A lot	7.56*	2.97	-0.62*	0.24
Parent welfare	-9.05**	3.28	0.58*	0.25
Parent homeownership	0.66	3.21	0.83*	0.34
Parent bank account	-5.14	3.50	1.16***	0.32
<i>N</i>	2,389		1,880	
<i>N</i> of censored	---		283	
R ² / log likelihood	0.144		-43,050	

Note: sampling weights are applied* $p < .05$; ** $p < .01$; *** $p < .001$

TABLE 4*OLS regressions for Credit Scores among CAP Homeowners by Parental Teaching on Managing Money*

Variable	A Lot		Some		None/Not Much	
	Estimate	S.E.	Estimate	S.E.	Estimate	S.E.
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
Male	2.34	4.26	-1.15	4.45	3.08	5.26
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						
(< High school grad.)						
High school 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 and more	44.45***	8.64	30.09***	9.07	2.07	9.70
Marital status						
(Married)						
Partnered	-2.20	6.68	3.35	6.60	-0.46	7.82
Divorced/widowed	9.60	6.47	-4.02	6.80	-10.61	7.08
Never-married	10.18	5.44	2.58	5.82	-5.06	7.58
Employed	-1.32	7.28	17.08*	8.56	10.51	8.24
Number of household children	-11.15***	2.10	-8.04***	1.93	-2.74	2.02
Number of household adults	-1.18	2.53	-1.08	2.80	-6.19*	3.07
Household income (log)	4.18	3.90	-5.18	3.58	0.68	6.19
Parent welfare	-5.79	6.05	-10.03	5.69	-9.85	5.53
Parent homeownership	-6.39	5.83	3.85	5.52	1.41	5.50
Parent bank account	4.41	6.36	-11.82	6.26	-2.18	6.04
N	820		865		704	
F	12.10***		8.98***		4.36***	
R ²	0.214		0.160		0.103	

Note: sampling weights are applied* $p < .05$; ** $p < .01$; *** $p < .001$