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The banks want your kids

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By Jane J. Kim, The Wall Street Journal

Banks are battling each other to get their hands on your kid's allowance.

As part of an aggressive campaign to build brand awareness among teen and preteen savers -- not to mention their parents -- financial-services firms are rapidly launching new services aimed at getting youngsters interested in socking away money in a bank.

A new savings account at U.S. Bancorp launched this spring in branches throughout St. Louis not only provides kids as young as five years old with passbooks to track their miniature nest egg, as other banks do, but awards them prizes (such as stick-on tattoos) when they make any deposits at all, and music downloads once they reach $100. At KeyCorp's KeyBank, the youngest customers of its DinoSaver accounts receive dinosaur toys and quarterly newsletters. Starting this past June, teens can get an iPod shuffle for opening a student checking package.

J.P. Morgan Chase & Co. has been offering since April gift cards worth up to $25 at Target Corp. stores to teens who open up a "high school" or "college" checking account.

The action isn't limited to bank accounts. At USAA, children can invest in a mutual fund called First Start Growth fund with as little as $20 and no monthly requirements. (The financial-services firm's minimum fund investment typically ranges from $250 to $3,000.) The fund, which has assets of $228 million, invests in stocks that kids are likely to recognize, such as PepsiCo Inc. and Google Inc. The fund is part of USAA's suite of youth-oriented products which include a savings account, a mutual fund, a prepaid card, and most recently, a teen checking account, launched last August.

It's coming at a time when young adults are increasingly struggling to manage their money. Today's young adults represent one of the fastest-growing segments of bankruptcy-filers -- partly the result of factors such as heavy student-loan costs and spiraling credit-card bills.

The new services represent an updating of a classic teaching tool: The traditional passbook savings account that many of today's grownups will remember from their own childhoods. But watch out: Some of the new breed of accounts require added vigilance from parents. Some not only put kids more squarely in the driver's seat than in the past, but are also more powerful than previous offerings.

For instance, some of the new accounts let kids obtain debit or ATM cards in their own name, receive bank statements in the mail addressed to them, and even check their balances online. Some even let kids dabble in borrowing. Zoe Seward, a 10-year-old in Denver, borrowed $1,067 from Young Americans Bank two years ago to buy a soda machine, which she has since set up in a local office building. She had to draw up a business plan describing how much she would charge and how she would repay the loan.

"I wanted (the loan) for three years because I wanted it to be the least amount of money each month as possible, so that I would have a bigger cash flow," Ms. Seward says.

After meeting monthly loan payments of $34.05, she has so far been able to build up about $500 in her savings account, she says.

Parents still serve as co-signers of the accounts, and there are some built-in controls that allow parents to monitor kids' spending or set daily transaction limits. This is important, because credit cards may allow kids to spend more money than they have. And even though penalty fees on the accounts are often lower than for traditional accounts, these costs can be onerous for a young person.

Wells Fargo & Co., which this month began piloting a teen checking account in five states, charges $15 for overdrafts and insufficient funds, compared with $20 to $33 penalties on its regular checking accounts.

The new entrants join some more established players in the field. Washington Mutual Inc. has long offered a program that allows kids to open savings accounts at school. They can start the accounts with as little as a quarter and make additional deposits in 10-cent increments.

Young Americans Bank, a Denver bank owned by the nonprofit Young Americans Education Foundation, issues banking products to customers 21 years old and younger. Kids can apply for a credit card, for example, but the bank restricts the credit limit to $100.

Some companies -- including Citigroup Inc., Visa USA Inc., Merrill Lynch & Co., Wells Fargo and others -- have developed curricula to teach kids about money management. Fifth Third Bancorp's Fifth Third Bank unit has expanded its fifth-grade financial-literacy program to markets including Chicago, Cleveland and Indianapolis. Brokers at Charles Schwab Corp. started holding seminars about money management for parents and their kids in many of its branches earlier this year.

Experts are divided over whether educational programs alone can influence young people's spending and investing behavior. That's where some of the new product offerings could be helpful.

"It is very useful for kids to have some vehicle that gives them feedback and a sense of accomplishment," says Lewis Mandell, a professor of finance at the University at Buffalo School of Management who surveys high-school seniors on their knowledge of financial basics for the Jump$tart Coalition for Personal Financial Literacy. "It's far more valuable to see at the end of the year, how much interest you've made," he says.

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