

Strengthen Family Bonds and Increase Intergenerational Wealth with a Family Bank



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Let's say your adult daughter wants to launch a startup. If she has a generous trust fund, she can simply withdraw the money she needs and set up shop without consulting you (or anyone else). Whether her idea is great or terrible, she doesn't have the business acumen or life experience you do. And if she doesn't see the benefit of seeking your guidance, she doesn't have to.

Now, let's reimagine that scenario. Your daughter wants to start a business, and you want to support her. But to get the money she needs, she has to either save it, borrow it from a financial institution, or convince family or friends to lend her money or become angel investors.

If you have a family bank, it can be an appealing source of funding. Your family bank, which is usually set up as a limited partnership or limited liability company, will be headed by an investment committee that includes you and several other trusted family members.

Your daughter will request a meeting to explain her idea. The investment committee will ask her questions and perhaps require her to submit a business plan. If she makes a solid case for her idea, the family bank will give her a low-interest loan, which may later become a gift.

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How a Family Bank Works

A family bank is not technically a bank. Rather, it's a pool of family money set aside by a wealthy family matriarch or patriarch to provide funding for less-well-off family members, including younger generations.

A family bank is not meant to be a tool of control. Rather, it's meant to provide accountability and education while nurturing family bonds. Let's return to our narrative to show how a family bank can be effective.

In the process of getting "approved" for a loan from the family bank, your daughter will have the opportunity to learn from the members of the investment committee, who may be able to help her avoid serious mistakes. The structure provided by a family bank can be a way for the older generation to positively insert themselves into the lives of the younger generation and impart lessons on how to preserve and grow the family's wealth.

At the same time, the investment committee members will gain more insight into your daughter's intellect and interests. The older generation can learn from the younger generation as well. Your daughter's life experience may have shown her a market opportunity that you've never considered. It could be a great opportunity for your family to grow its wealth and make another mark on the world.

The Purpose of a Family Bank

Families of wealth often want to help their relatives financially but are justifiably concerned about what those individuals will do with the money and how having access to significant sums might affect their values and behavior.

One way senior generations can safeguard wealth against negative outcomes is by making family trust distributions to beneficiaries discretionary rather than mandatory. This framework gives the trustee control over when to give money to a beneficiary and how much to give them. However, that process is not collaborative. A family bank provides an alternative.



Benefits of a Family Bank

A family bank can incentivize entrepreneurship and encourage financial responsibility. It provides access to money on the basis of accountability rather than entitlement. It creates a setting where family members who might otherwise not interact can work together toward a common goal of preserving intergenerational wealth.

In addition to approving the use of family funds, the investment committee can invite members of the younger generation to sit in on its meetings and see how the family makes financial decisions. In this way, they can develop their money management skills before they're old enough to access family wealth or have a say in decisions.

Later, if they're interested, they might join the investment committee and participate in making decisions. Even if they don't, they will have learned valuable lessons.

Making decisions by committee also spreads out control of the family's money, even as the head of the family decides how much funding the family bank receives. A family bank provides privacy, too, as it can eliminate the need for family members to seek outside sources of capital.

And sometimes it's a member of the younger generation who has catapulted to a new level of wealth. They might want to help siblings, parents, and cousins without becoming a source of meaningless handouts. Here, too, a family bank could be a solution.

Ways to Use Family Bank Funds

A family bank can be established for the broad purpose of helping with any major expense that might come up, whether that involves paying for an advanced degree or buying an investment property. It can also be established for a more specific purpose, such as helping family members through life transitions. Another family might say the family bank is only for entrepreneurial investments. It's up to you.

Does a family bank sound like a promising tool for meeting your goals? If so, we'd be happy to help. A Pitcairn professional can answer your questions about how to establish a family bank and help you evaluate its potential based on your unique circumstances.

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