

The Family Bank FAQs



This is a document based upon actual questions that clients and prospects have posed over the years to better understand the Family Bank and its elements. These are not in any particular order.

1. What is the Family Bank?

The Family Bank is a financial arrangement in a familial setting designed to provide financial resources to oneself and to family members for various needs such as paying for education, buying a home, starting a business, or other investments. Family Bank services may include loans, grants, and educational training to its members. Family Bank members tend to view wealth as a stewardship, and access to any financial assistance is contingent upon merit and accountability. The Family Bank provides the structure for families to not only pass on financial opportunities but values and traditions as well.

2. Why would I want a Family Bank?

Many people would like to be as self-sufficient as possible by accumulating savings, funding investments or other self-financed purchases, and preparing for future expenses such as retirement and end-of-life care. They may also have clear intentions for whatever wealth is left over when they pass away, and they would like to avoid enabling others to act in an entitled, wasteful, or contentious way. However, many are unsure of exactly how to accomplish all these objectives simultaneously. Fortunately, the Family Bank strategy can help facilitate the financial independence of its founders as well as their relatives and others.

3. How much money do I need to create a Family Bank?

Many people are already practicing Family Bank principles on a regular basis all over the world with fortunes great and small. Family Bank activities are scalable to whatever amounts are available to its members. Of course, larger amounts can make a larger impact on one's family and community.

4. Who can benefit from the Family Bank?

Generally speaking, direct relatives and descendants of the Family Bank's founders are qualified to benefit from Family Bank services. However, most Family Banks do not restrict their assistance to family members and regularly donate to charity and other worthy causes or individuals.

5. Who runs the Family Bank?

The Family Bank is operated by a "Bank Board" generally made up of family members and sometimes other non-relative board members. Bank Boards are often made up of an odd number of multiple individuals to prevent favoritism and impasses.

6. Where is the money stored in the Family Bank?

Money for different Family Bank activities and services comes from the assets the founders transferred and entrusted to the Family Bank. Liquid assets such as cash or cash equivalents are ideal for funding loans to borrowers.

7. Who invests the money?

The Bank Board manages assets and performs other investment and administrative duties inside the Family Bank. The Board may employ the services of financial professionals and legal and tax advisors.

8. How does money come in and go out of the Family Bank?

Sometimes financial assets inside the Family Bank earn income, and loan repayments from family members and others are also deposited. Distributions from the Family Bank can include loans to qualified persons, grants for authorized activities with no interest or repayment required, and gifts to family members or charities.

9. Why do Family Banks charge interest on loans to family members or others?

Interest is charged on loans from the Family Bank to promote productivity and accountability. The repayment of these loans can also ensure the sustainability and positive impact of the Family Bank. Borrowers from the Family Bank receive unparalleled financial opportunities through their unique access to Family Bank training and capital.

10. What are the steps for receiving a loan?

- i. **An Invitation.** The Bank Board invites adults in the family or group to receive low-interest loans for qualified activities, if they so choose. Acceptable activities may relate directly to improving the member's financial situation and may include funding for education, home purchases, business funding, real estate investments, or charitable activities, to name a few.
- ii. **A Proposal.** Members wishing to receive funding meet with the Board and discuss the new enterprise. Funding may depend on the activity's potential for increasing asset value and/or earning income from the activity. First loans may be smaller for less experienced or younger members.
- iii. **A Vote.** The Board weighs the applicant's training, history, and capabilities. The viability and potential success of the endeavor is judged and voted on. The approved loan amount may change from applicant to applicant.
- iv. **A Contract.** If the proposal is approved, the Board draws up terms for a loan along with a repayment schedule. Collateral may or may not be necessary (see Contingencies below). Depending on the activity, the loan's duration be short or extend to multiple decades. The interest factor minimum may follow the Internal Revenue Service "Applicable Federal Rates" regarding private-party loans.
- v. **A Mentor.** The member is assigned to report failures or successes regularly to a member of the Board or one of his or her assistants. The mentor may also provide guidance directly related to the borrower's activities.
- vi. **Funding.** Cash is drawn from cash accounts or loans from the cash value of whole life insurance policies.
- vii. **Payments.** Regular repayments from the member are credited back to repay the whole life insurance policy loans. Any applicable interest from repayments may be offset by distributions or charitable donations if applicable.
- viii. **A Pattern.** After the applicant has a proven record of competence and success, larger loans may be available in the future.



11. How much can family members borrow?

Many Family Banks set a maximum loan amount or other financial assistance amount for each individual member. This limit may be a percentage of Family Bank assets or tied to a specific account created for the benefit of that family member. The first introductory loan to family members is typically smaller, and then subsequent loans may be larger depending on the purpose and the borrower's history of Family Bank loans. Family members may only need assistance under certain circumstances such as getting started in their financial journey or due to financial difficulties. Ideally, family members will be able to finance their own activities after loans from their family's bank are repaid.

12. What can loans be used for?

Loans from the Family Bank are generally used to fund productive activities that may enhance the borrower's financial independence and personal growth. Qualified activities may include education, home purchases, investments, and business creation or expansion. Repayment for funding certain activities may not be required such as service projects, education, and charitable or religious efforts.

13. What if my family members aren't entrepreneurs or business owners?

Regardless of their chosen occupations, most people have a need for financing at some point in their lives for higher-priced items such as homes, vehicles, and certain investments. Furthering one's education can sometimes be one of the best investments available to increase one's income. Many Family Bank members we've observed receive Family Bank funding to participate in investment ventures wholly unrelated to their professions.

14. What happens if a borrower defaults on a loan?

Borrowers who don't fulfill their repayment obligations may forfeit all future access to financial assistance from the Family Bank. Depending on the circumstances, certain arrangements may be appropriate such as a probationary period, partial repayment, or even forgiveness of unpaid loans. Forgiven loans may be considered taxable income. Certain assets of the Family Bank may be allocated specifically to meet this contingency (see question 17).

15. Is the interest charged on loans from the Family Bank taxable to the Family Bank?

It may be. Many Family Banks often make charitable donations or other distributions to off-set any taxable income to the Family Bank. Interest earned may also be offset by certain expenses of the Family Bank.

16. What kind of assets are typically inside the Family Bank?

Family Banks tend to hold a variety of different assets including real estate, savings accounts, securities, and cash-value life insurance on its members. Business interests or other taxable, income-generating assets are generally held outside of the Family Bank for tax and ownership purposes.

17. Why would the Family Bank own life insurance on its members?

There are three important reasons:

1. **Protection:** Life insurance can help family members recoup and mitigate the costs of an untimely death. Policies can also efficiently assist in the payment of any applicable estate or other taxes due at the death of its founders or others.
2. **Cash Value:** Many families and business owners use permanent cash-value life insurance as a tool in their cash-management strategy with remarkable access and liquidity.



- 3. Tax Advantages:** Structured correctly, the death benefit on such life insurance policies is received income-tax-free. The cash value inside permanent policies grows tax-deferred, and cash values may be received tax-free as long as they don't exceed the policy's basis or are taken as loans.

18. Must we use life insurance inside the Family Bank?

No. But every Family Bank we've observed and researched owns cash-value life insurance—and specifically whole life insurance—on its members. A few of these Family Banks own as much insurance as the insurance companies will permit them to buy, and policies tend to cover as many family members as possible, from newborns to older members. Family Banks can and do hold other assets such as real estate, savings accounts, and securities.

19. Why is whole life the best kind of life insurance inside the Family Bank?

While a few types of life insurance could potentially work inside the Family Bank, whole life insurance has the longest track record of delivering on its promises to policyowners and beneficiaries. The cash value of a whole life insurance policy is guaranteed to increase incrementally and equal the death benefit at a future age. All guarantees are dependent upon the claims-paying ability of the issuing insurance company. In addition to the guaranteed cash increase, most whole life policies offered by mutual companies are eligible for dividends that increase the death benefit and cash value. Dividends typically come from the profits of companies and are not guaranteed.

Financially stronger companies tend to have better historical dividend records. Since the Family Bank is not purchasing life insurance policies on family members primarily for the cash growth, for most people a conservative but competitive return will do. Avoiding the frustration of market cycles and the increasing costs of other types of insurance makes whole life a compelling option.

20. Can the Family Bank donate money to charities?

Yes. All the Family Banks we've observed and researched regularly donate generously to charity. Regular donations are often preferable to large, one-time gifts for charities. This not only helps charities avoid the burden of managing and investing large endowments, but donors can keep charities more accountable to deliver a greater percentage of aid to the needy if their donations are conditional and incremental.

21. Can the Family Bank help me with my estate tax liability?

Yes. Trusts or other kinds of legal entities making up the Family Bank can receive assets transferred out of the founders' estate to mitigate any estate tax liability. Often Family Bank founders will purchase life insurance specifically to provide a large sum of cash at their death to meet those tax obligations.

22. Can I still give gifts to my kids and grandkids?

Certainly. Many Family Bank founders choose to give some gifts to their family members during their lifetime or as a small inheritance after their death. Generally, most of the remaining assets are transferred inside the Family Bank to protect, grow, and use the wealth for the benefit of generations to come.

23. How much of my estate should I allocate to the Family Bank?

A guiding principle for gifting by parents and grandparents could be, "Only give what you are prepared to have consumed." Conversely, determining the amount to dedicate to the Family Bank could be, "Whatever is in the Family Bank has the potential to grow and assist family members perpetually."



24. How long can the Family Bank last?

Some Family Banks have been in operation for hundreds of years, and many of these families' descendants have made great fortunes and risen to prominence thanks to training and funding through their Family Banks. The continuous growth of their Family Banks' cash assets has also permitted these families to provide non-repayable financial assistance to struggling family members as well as perpetual, annual gifts to charity. These families have perpetuated these traditions through a legal structure made up of trusts and other entities capable of educating their younger members in matters of finance, handling the business of family banking, and funding a variety of charitable activities within and outside of the family. Thanks to this planning, some Family Banks may yet provide countless financial opportunities for their members and others for centuries to come.

25. How can the Family Bank help share my wisdom and values with my family?

Families who establish practices of assistance to and regular interaction with each other are most inclined to carry on family traditions, stories, and values. Wealth entrusted to a Family Bank can provide funding for those activities and tie generations together.

26. How do I set up a Family Bank?

While many are already practicing Family Bank principles on a regular basis all over the world, very few have standardized and institutionalized those practices to continue longer than their lifetimes. Family Bank founders can employ the assistance of legal advisors and financial professionals to establish their Family Banks with a legal and financial framework that can last generations. For more information on how a combination of innovative planning strategies and select insurance and financial products can help achieve your legacy goals for this generation and those to come, please contact our office:

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