Keeping Family-Owned Banks In The Family

by Steve Brown leadership management

Summary: Family-owned banks can face internal conflict when the founders pass away, as surviving family members have different goals and visions for the bank. It often becomes more readily apparent during times of transition. We provide four strategies to prepare for discussions of the future of the bank: use an independent third party; manage different expectations; seek to understand, and adopt an inclusive plan.

As people start thinking about possible summer vacations, a few popular tourist attractions come to mind. Mount Rushmore, Faneuil Hall in Boston, Great Smoky Mountains National Park, Walt Disney World, Niagara Falls, and Hollywood to name a few. Maybe you have some other ideas. There are definitely many more ways to entertain yourselves. Family-owned banks have sometimes found their family members entertaining other ideas too — including selling the bank.

As founders pass away, family members, who have not previously expressed desires to sell, may start entertaining this idea. It can cause challenges and internal conflict, which leads to uncertainty for the direction of the bank.

Family secrets that heirs keep

For hundreds of family-controlled community banks, keeping the bank in family hands is often seen as a core goal. Yet, the next generation may not be on the same page. The issue is that family dynamics often get in the way of honestly shared feelings about the future of the business. When the patriarch or matriarch dies, assumptions about what comes next for the bank can suddenly face the reality of family members who are dissatisfied with their dividends and have long wanted to cash out and /or sell the bank.

The next-gen surprise can be a function of closely-held banks where strong founders reside over a board with younger family members holding shares in the bank. Some may work in the bank. Many may not. At annual meetings or annual family sessions, the future of the bank will often include a discussion about selling out. Typically, no one will admit to wanting to sell shares in an expression of support for the ruling elder and out of concern for offending other family members, like brothers, sisters, or cousins. Invariably, this agreement won't reflect reality.

So, how can a community bank get a true reading of an extended family of majority shareholders? Also, what can a bank do if it finds restlessness among its younger family shareholders? Here are some ways to answer those internal questions.

Strategies for family control

1. **Use an independent third party.** Don't rely on a board or family meeting to reveal the true sentiments of family members. The pressure to be loyal to the patriarch or matriarch is simply too strong. Instead, family members should be asked about this sensitive subject individually. Often the best way to do that is by using an independent third party and to make the discussions discreet.

2. **Manage different expectations.** Don't assume that family members who work in the bank share the same feelings as family members who don't. Often the ones working within the bank want to retain control and grow the bank, especially since they often feel more connected with their direct participation. These members not only enjoy dividends, but also income. So, they may want to plow profits back into the bank rather than pay it out in dividends. For passive family owners receiving modest dividends, the prospect of a payout through the sale of their shares can be very attractive. In assessing family feelings about a bank's future, it is important to understand the true feelings of both active and passive shareholders.
3. **Seek to understand.** If there are restless family members, seek to understand what they want. Often there is dissatisfaction among passive members receiving small dividends while working members are drawing generous salaries. Ascertaining what it would take to satisfy these passive owners will help in preserving family control.
4. **Adopt an inclusive plan.** A plan that is responsive to the needs of all family owners is required. This may not be easy, especially appealing to passive family owners without upsetting active members. But, it is essential. One option might be to increase dividends so that the cash flow for these passive shareholders is strong enough that the idea of a complicated sale is less appealing.

Another might be to find positions for those passive members interested in working in the bank and drawing salaries. Depending on the skills and talents, a family member could be an ideal community relations ambassador, for instance.

Family-owned banks are founded on the idea that such a business is both good for customers and for the family of owners. Keeping the bank in family hands through subsequent generations means making sure the business continues to thrive for both of them. It may be hard to find that balance, but isn't it worth it?

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ECONOMY & RATES

Rates As Of: 05/19/2021 11:15AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.02	0.01	-0.07
6M	0.03	0.00	-0.06
1Y	0.05	-0.01	-0.06
2Y	0.17	0.01	0.05
5Y	0.87	0.03	0.51
10Y	1.68	0.05	0.77
30Y	2.39	0.10	0.75

FF Market	FF Disc	IOER (Interest on Excess Reserves)
0.06	0.25	0.10

SOFR	Prime	OBFR (Overnight Bank Funding Rate)
0.01	3.25	0.05