Money and You: 'Bank of Dad' proves to be a valuable institution

by Lynn O'Shaughnessy

Even if your toddler's vocabulary is not yet as large as a parrot's, you may already know what billions of other moms and dads understand all too well: Kids want stuff.

Children's ability to let you know what they covet begins at an age when uttering any word with more than one syllable is a struggle. But luckily, toddlers have discovered that one powerful word - mine! - often gets the attention of Mommy and Daddy.

The tyranny only escalates when children have graduated from the grocery cart seats and begin creating havoc in the cereal aisle, where Cap'n Crunch and his sugary buddies beckon, and at the checkout counter, where parents find themselves prying Skittles and Bubblicious out of their youngsters' paws.

There is a way, however, to break this pint-sized focus on materialism. That's one of the messages of the book "The First National Bank of Dad," written by David Owen of The New Yorker. As a dad, Owen decided that many of the rules that financial experts advocate for kids regarding allowance and saving money are lame.

Conventional wisdom, for instance, suggests that kids, once they reach a certain age, should open a savings account at the neighborhood financial institution. Visiting a bank can be mildly exciting, but Owen notes that the novelty of a savings account quickly deteriorates. After all, kids are often forced to tie up their cash for months or years. And what is the reward? Look, kids, the bank has given you $2.09 in interest for the past 12 months! You couldn't even buy the No. 4 value meal at McDonald's for that.

To make saving more exciting and rewarding, Owen established his own bank for his son and daughter. He set up checking accounts on his computer using Quicken and configured the software to automatically deposit their allowances on the first of each month.

To encourage the kids, who were 6 and 10 at the time, Owen made the sort of offer that would cause the shareholders of Bank of America or Wells Fargo to revolt. He told them that any money they deposited in the First National Bank of Dad would earn 5 percent a month in interest. Compounded monthly, that works out to more than 70 percent for the year. Now that's an offer that will make a kid hit the pause button on his iPod.

Originally, Owen's son and daughter had to write a check to withdraw money. He or his wife would hand over the cash and make a notation in Quicken. The check requirement, however, was quickly abandoned for a system that was less of a hassle.

If he were starting today, Owen said he'd place money in a cardboard box and require his kids to write down their withdrawals and deposits. Obviously, this arrangement would only work if the young bank customers were honest. If you're interested in setting up your own family bank, you don't need software to pull it off. You can keep a paper ledger of deposits and withdrawals and figure out the accrued interest with a calculator.

The First National Bank of Dad became so popular that Owen had to make the terms less lucrative. When each of the children had amassed several hundred dollars, Owen lowered the interest rate to 3 percent, which he announced at a family meeting.

What Owen cleverly created was a system that allowed his kids to succeed financially. Within a couple of years, Owen's son and daughter had built up their balances so that their income - allowances, gifts and interest - exceeded what they spent by a comfortable margin. They also spent their money more wisely.

"They treated their money the way sensible grown-ups have always claimed that money ought to be treated," Owen wrote. "And they did it without my haranguing them about the virtues of restraint. As soon as their savings began to grow at a rate that was meaningful to them, they realized that frenzied spending was not in their best interest."

When Owen's kids became teenagers, the First National Bank of Dad was replaced by the Dad & Co. investment firm. The kids were given a chance to abandon their sure thing and put their money into stocks or mutual funds. To get them started, Owen developed a list of six stocks they could choose from. His daughter, to her credit, eventually switched all her money to mutual funds. The kids could buy and sell stocks and mutual funds at one-one-hundredth of their actual price. So a stock trading for $80 a share would be bought through Dad & Co. for 80 cents a share.

Ultimately, his children moved on to their own checking accounts, debit cards and credit cards. But Owen gave them valuable lessons in managing their money. And he could benefit from his days as a faux bank president.

"The better we teach our children now, the more likely they'll be to do a good job when the time comes for them to gently lift our hands from the steering wheel," he writes. "That's the potential payback, if you feel you need one. Do your best to help your kids today; someday, your own security and happiness may depend on their ability to return the favor."

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