Do You Need Collateral on Your Bank Account?

Is a bank account the safest place for your organization's money?

Q: Our auditor has advised us to have our bank provide collateral on our account when it exceeds the amount covered by FDIC insurance ($100,000). However, the bank advises us that the accounts of nonprofits cannot legally be collateralized. Do you have any suggestions to alleviate this problem?

Loretta Johnson, Finance/Personnel Mgr.
Illinois Assistive Technology Project
Springfield, Illinois

A: First, count your blessings. Hundreds of nonprofits around the country would love the problem of what to do with over $100,000 of excess money!

You are correct in noting that an interest–bearing bank account is only insured by the Federal Deposit Insurance Corporation (FDIC) for up to $100,000. It is unclear from my research whether banks cannot take out additional insurance or whether they simply will not do so because they have no incentive to spend the extra money. In any case, I have yet to find a bank that will insure accounts in excess of the FDIC–insured maximum.

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Thus, if FDIC insurance is important to your organization and you have more than $100,000 to place in interest–bearing accounts, you have two options:

- Put $100,000 into an account with each of several FDIC–insured banks.
- Put $100,000 into different branches of the same FDIC–insured bank. (But check with the bank to be sure each of these accounts will be fully insured.)

Of course, your question assumes that a bank account insured by the FDIC is the safest form of investment. While this may be generally true, many investment advisors would disagree. The reason is that the FDIC has set aside in its insurance fund only a fraction of the money necessary to cover all insured bank accounts across the country. Thus, if many banks became insolvent at once, the FDIC simply couldn't reimburse all account holders.

While the chance of such a widespread bank failure is small, the point is that almost no investment is 100% safe. However, there are other investments that, while not insured by FDIC, are backed by the full faith and credit of the U.S. government. These investments are probably just as safe as an FDIC–insured savings account. For example, many banks offer "bank repurchase agreements," which are collateralized by government–backed securities. Treasury bills are also backed by the government and are available through banks. And of course, there are many other investment vehicles not offered by banks but still relatively safe.

The best advice for nonprofits with large amounts of money is to use some of it to hire a financial advisor. Such a professional can suggest investments that reduce risk while maximizing return. When investing, it is foolhardy to rely on staff members or accountants untrained in the investment field.

D. Benson Tesdahl, Esq.
Powers, Pyles, Sutter &
Verville, Attorneys at Law
1275 Pennsylvania Ave., N.W.
Washington, D.C. 20004–2404

Note: See "Investment Guidelines—Why You Need Them, How to Create Them," Nonprofit World, *January–February 1995 and* Accounting and Financial Management, Leadership Series, *available from the Society's* Resource Center Catalog *(included in this issue, or call 800–424–7367).*