

Assure Your Money's Safety & Earning Potential

How can you advance your mission and earn a good return while keeping your funds safe?



Q Should our organization be concerned about the safety of our funds in light of recent bank failures and ongoing instability in the banking system?

A The impacts of last year's bank failures are still with us, and there are mounting fears about bank stability in the future. Against this backdrop, you're right to be concerned about the safety of your deposits, and it's vital to evaluate alternatives to ensure not only an appropriate rate of return but the highest level of safety. Your board members need to perform due diligence to balance risk, return, and alignment with your mission when deciding where to deposit your cash. Read on for details.

What can you do to ensure the safety and money-making yield of your funds?

The most common step many depositors take is to move their deposits into one of the country's "too big to fail" banks. Depositors often justify this by saying something akin to, "If that bank fails, we have much bigger problems." While it's true that a bank failure of that magnitude may indicate serious economic issues, it doesn't excuse you from taking the investigative steps that fiduciary compliance requires.

The Federal Deposit Insurance Corporation (FDIC) keeps its list of problem banks confidential, so evaluating the safety of a given bank requires some effort. In most cases, a nonprofit won't have the in-house expertise to do a thorough review, and ratings agencies are often less than helpful. Consider that Moody's continued to give Silicon Valley Bank (the 16th largest bank in the U.S.) an "A" rating up until the day the bank was shut down.

The most straightforward way to ensure that your deposits are safe is to strategically place your funds in FDIC-insured banks. That's because the FDIC, through its Depositor Insurance Fund, protects depositors up to \$250,000 — regardless of the bank's size — in the event of a bank failure.

Nonprofits with more than \$250,000 in deposits for any individual tax ID could achieve complete coverage by using

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“There are mounting fears about bank safety.”

multiple banks. As an example, a nonprofit with \$2,000,000 in total deposits could achieve complete coverage by dividing that balance up into eight increments of \$250,000, each deposited at a different FDIC-insured bank.

When placing deposits, you should also be paying attention to the earning potential of your bank balance. Be sure to compare a number of safe, well-capitalized banks to find the best interest rates so that you'll optimize yield for the benefit of your organization.

How can selecting the right financial institution improve the positive impact that your organization is trying to make?

While protecting the safety of funds is a key fiduciary responsibility, it doesn't end there. It's worth remembering that your deposits enable the bank to make loans. Thus, it would be prudent to make deposits at banks that align with your organization's mission.

As an example, consider a nonprofit whose mission is to combat climate change through a reduction in the use of fossil fuels. That organization's leaders would be helping their mission simply by placing deposits at a bank that actively lends to green business initiatives versus one that is a big lender to fossil fuels companies.

What's the most effective way to assess a bank's health?

There's a tremendous amount of publicly available data you can use to evaluate the health of a bank. This information is updated on a quarterly basis and can be found on the Federal Financial Institutions Examination Council (FFIEC) website (cdr.ffiec.gov).

The challenge for most nonprofits is that they lack the resources and expertise to complete a comprehensive analysis of the data. So, for most, a provider that can place and administer deposits across a multitude of FDIC-insured banks is the best path forward.

In some cases, a bank may offer a product that sweeps deposits into a broad network to maximize FDIC coverage.



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This product, while convenient, may not offer competitive rates or the flexibility to customize solutions that meet your organization's unique requirements.

Alternatively, an increasingly popular approach involves attaining solutions from non-bank deposit administrators. Some of these firms have access to hundreds of banks. The solution can be specifically configured to have deposits placed with banks that are covered by the FDIC, generate good returns, and align with the organization's values. 

– Reid Thomas, Chief Strategy Officer, Ampersand, trustampersand.com



Ensure Your Financial Future

While safeguarding deposits and securing competitive rates is fundamental, it's also pivotal to identify financial partners that share your values and support your organization's mission. Explore additional resources at NonprofitWorld.org:

To Accept Or Not: A Guide for Dealing with Tainted Money (Vol. 19, No. 1)

Good Cash Management Shows Good Stewardship (Vol. 25, No. 6)

How to Get More from Your Banking Relationship (Vol. 33, No. 3)

The Bucket System: Managing Your Assets in the Face of Volatility (Vol. 35, No. 2)

Do Your Board Members Know Their Fiduciary Responsibilities? (Vol. 33, No. 1)

Risk Management: How to Protect Your Assets (Vol. 26, No. 1)

Is Your Investment Committee Doing Its Job? (Vol. 33, No. 4)

Stay in the Money: Keep Cash Flow Problems from Derailing Your Organization (Vol. 31, No. 1)

Take Charge of Your Finances: How to Succeed in an Unpredictable Economy (Vol. 28, No. 1)

Investment Strategies for a Smooth Financial Future (Vol. 35, No. 3)

Operating Reserves: Not Just for Disaster Recovery (Vol. 31, No. 2)



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If you have any questions, contact Jason Chmura at jchmura@NonprofitWorld.org