



Is Your Cash Safe?

You work hard for every contribution received, grant awarded, or ticket sold. You need the money available to pay your staff and your vendors in order to deliver your organization's programs. You need to be able to access your operating reserves if things aren't going quite as planned. So like most organizations you have checking, savings, and money market accounts at your bank to hold the money until you need it. You've probably never worried about losing that money or not being able to access it when you need it until recently. Is your money protected?

Read on for an overview of the protections available and the five steps you should take now to keep your cash safe.

Congress created the Federal Deposit Insurance Corporation (FDIC) in 1933 as an independent agency of the United States. The FDIC insures deposits at 8,494 banks and savings associations and is backed by the full faith and credit of the U.S. government¹. When a bank fails, federal law requires the FDIC to make payments as soon as possible. The most prudent way for you to keep your cash safe is to maximize the amount of your balances that fall under the FDIC insurance safety blanket.

So what does FDIC insurance cover? FDIC insurance covers funds in deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit (CDs). FDIC insurance does not, however, cover other financial products and services that insured banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or municipal securities.

The enactment of the Emergency Economic Stabilization Act of 2008 resulted in increases to the FDIC insurance limits from \$100,000 to \$250,000 per depositor through December 31, 2009. Additionally, the FDIC created the Temporary Liquidity Guarantee (TLG) Program effective October 14, 2008 to provide unlimited deposit insurance coverage for non-interest bearing transaction accounts like payroll accounts at participating FDIC-insured banks and savings associations. After November 12, 2008, banks and savings associations have to pay a fee to continue participating in the TLG program so check your bank regarding its continuing participation. The TLG program is set to expire December 31, 2009.

The key thing to remember is that all accounts owned by a depositor at a single institution are added together for purposes of determining the amount covered by insurance. As a result many nonprofits have balances in excess of FDIC insurance limits at their banking institution.

¹ *Protecting Your Cash Assets*, by the Schwab Center for Financial Research Updated October 6, 2008



In order to reduce the risk presented by have excess funds at the bank, here are 5 steps you should take:

1. Confirm your deposits are at an FDIC-insured bank that is in a good financial position. The FDIC logo should be plainly displayed on their Web site and in their branches. The FDIC website provides access to a number of performance metrics for the institutions it insures. If your bank is not FDIC-insured or in poor financial health, switch banks.
2. Inventory your accounts and determine how the insurance coverage limits apply. Find out how much is uninsured and ask your bank representative what options are available to you to restructure your accounts.
3. Spread your money to more than one banking institution to come under the limits. If you do not need your cash immediately, the easiest way to accomplish this is to purchase certificates of deposit (CD's) at other institutions. CDARS® the Certificate of Deposit Account Registry Service® is available. It's the most convenient way to enjoy full FDIC insurance on deposits of up to \$50 million. With CDARS, you sign one agreement with a participating local bank or other financial institution of your choice, that institution purchases Certificates of Deposit (CD's) from other CDARS members, you earn one interest rate, and receive one regular statement. For many non-profit organizations, CDARS can be a valuable cash management or longer-term investment tool. To find a participating bank or other financial institution visit <http://www.cdars.com/find-cdars.php>. When you purchase CD's, create a laddered CD portfolio – buy smaller amounts at varying lengths so that some portion of the funds is maturing and becoming available at the times you will need it. This will minimize forced redemptions.
4. If your bank is not a member of CDARS, open a brokerage account with your bank or a reputable investment firm. Through this brokerage account, you can invest in money market funds or purchase CD's (called Brokered CD's) at multiple institutions through one vehicle and you have access to a wide universe of banks. Keep in mind that if you purchase a CD with a maturity date after December 31, 2009, the insurance amount is scheduled to revert back to \$100,000. You buy and sell brokered CDs much like other fixed-income investments. Be aware of any fees you may have to pay and the market risk if you sell your CD in the secondary market before maturity. Another risk of brokered CDs is the risk that you'll actually lose your money. You should make sure that any issuing banks are safe and FDIC-insured before purchasing.
5. Be aware of the implications of bank mergers and acquisitions. If you have deposits at both banks, you may inadvertently end up with uninsured balances. However, the FDIC provides a six-month grace period where the ownership categories are insured separately for each affected bank. If necessary, make sure to restructure your accounts within that time period.