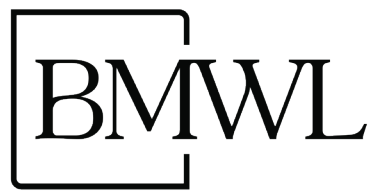


COULD EXCESS FUNDS IN YOUR ORGANIZATION'S CHECKING ACCOUNT BE EARNING 4% INTEREST?

By Mike Batts, CPA

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Could Excess Funds in Your Organization's Checking Account Be Earning 4% Interest?

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Does your organization have excess funds in its checking account, earning little or no interest? If so, you might want to explore the possibility of utilizing a money market account to hold the excess funds. In addition to regular checking accounts, banks typically offer money market accounts that pay a higher rate of interest. I had a very enlightening discussion recently on this topic with Craig Scheef, founder and president of Texas Security Bank – a Dallas-area bank that serves businesses and nonprofit organizations.

Following is a Q&A on this topic from my discussion with Scheef:

Batts: Craig, thank you for bringing this opportunity to my attention...and for being willing to share it with our readers. Let's start with this question – what is a money market account?

Scheef: A money market account is similar to a checking account – you can write checks on the account. Money market accounts typically pay a higher rate of interest than checking accounts. In fact, many checking accounts pay no interest at all.

Batts: It is certainly true that interest on checking accounts is typically minimal, if anything at all. What kind of interest rate are we talking about for a money market account?

Scheef: That will vary dramatically depending on the bank. Our bank offers a money market account with an interest rate that varies based on the current federal funds rate set by the

Fed. The rate changes monthly. Right now, for example, our money market account is paying an annualized rate of about 4%.

Batts: Wow! That is a very significant rate – especially when compared with the typical interest rate of zero or near zero on a checking account. So, if you can write checks on a money market account, what is the practical difference between a money market account and a regular checking account?

Scheef: Historically, the main difference between a money market account and a checking account was that federal rules limited how many transactions you could have in a money market account. For example, you could not normally have more than six transactions of certain types per month. If you crossed that line, the bank was required to convert the account to a regular checking account, and you would stop earning the money market rate of interest. Federal authorities lifted those restrictions during the pandemic...and they have not reinstated those restrictions yet. It's not clear when or if they will reinstate them.

Batts: Well, if that's the case, why wouldn't an organization just use a money market account as its regular checking account?

Scheef: I guess, technically, that is possible, at least for now. But the possibility of reinstatement of the restrictions probably makes it not an ideal strategy. I think the better thing to do is to keep excess funds from your regular checking account in a money market account and move the funds from the money market to the checking account when you need them. That is how money market accounts are intended to be used.

Batts: What if an organization has excess checking account funds that exceed FDIC insurance coverage levels? Is there anything it can do to have FDIC coverage for its entire

balance without having to spread the money across multiple banks?

Scheef: Yes. Some banks, including ours, offer a program in which multiple banks participate, allowing a depositor to have FDIC coverage for its full balance while only having one bank point of contact. The interest rate is reduced slightly (0.15% in the case of our bank) in exchange for the additional coverage. The program is called IntraFi.

Batts: So, Craig, what is your advice to nonprofit leaders on this topic?

Scheef: I would suggest that you talk with your bank about the use of a money market account to improve the yield on excess funds you would normally keep in your checking account. If your bank doesn't offer your organization a money market solution with a current annualized yield of about 4% (based on today's fed funds rate), you might consider other options. Of course, our bank would be glad to talk with anyone about this option, as we can serve organizations based anywhere in the United States.

Batts: Thank you very much, Craig. And thank you again for bringing this opportunity to our attention.

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