# NONPROFITS SHOULD BE WATCHING THE SAFETY OF THEIR CASH DEPOSITS AMID BANK LOAN LOSSES FROM VACANT COMMERCIAL REAL ESTATE

*By Mike Batts, CPA*

NONPROFIT SPECIAL ALERT™

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By Mike Batts, CPA

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Remote work is still a strong force after the COVID-19 pandemic, with many businesses allowing their employees to work remotely – either full-time or on a hybrid basis. The strong, lingering reality of remote work has significantly reduced the demand for commercial office and business space. The resulting increase in the vacancy rates for commercial rental space is affecting the ability of many landlords to make mortgage payments on their properties. It is also reducing the value of the collateral securing those mortgages. That reality, in turn, exposes commercial lenders, many of which are banks, to a higher risk of loss in their loan portfolios.

***Why does this matter to nonprofit organizations? Because this combination of factors elevates the risk that banks could fail – due in part to significant losses in their loan portfolios.***

There are many recent articles in business and government publications about this risk, one example of which is an article published by the US Government Accountability Office.[1]

What should nonprofit leaders do in response to this risk? I used to say that the best way to monitor your bank's financial health is to monitor your bank's financial ratings by one or more reputable companies that rate banks. But my beliefs about the reliability and usefulness of bank financial ratings changed after Silicon Valley Bank (SVB) was taken over by the FDIC on March 10, 2023, at a time when one major ratings agency had an "A" rating outstanding for the bank, and another had a "B" rating outstanding. The SVB failure was the second-largest bank failure in US history, according to *The Wall Street Journal* (WSJ). The WSJ published an article on March 10, 2023 (the day the FDIC took control of the bank), with a truly remarkable two-sentence paragraph about the SVB failure: "'The bank was in sound financial condition on Wednesday,' the regulator said. A day later, it was insolvent." [A link to the WSJ article is available below;[2] note that a subscription is required to access it.]

***Accordingly, my advice to nonprofit leaders today about bank health is to take steps to ensure that your organization's bank deposits are safe…no matter which bank you use.***

Given the practical limitations on the ability to know whether any bank is truly safe and sound, what can and should nonprofit leaders do to ensure that their organizations' bank cash deposits are safe? Some people suggest that perhaps the only safe banks are the very largest banks in the country…those that the regulators deem are "too big to fail." If all depositors took that position, smaller local and regional banks would be wiped out, and local banking relationships could be more difficult to maintain.

Another possibility is to spread your organization's bank deposits among multiple banks to have more of your balances covered by FDIC insurance. But, depending on the size of your organization's deposit balances, it may not be practical to try to spread deposits among multiple banks, keeping balances below the FDIC coverage cap of $250,000 per depositor.

In this Alert, I am addressing deposits in the banking system. Clearly, there are ways to protect cash outside of the banking system in an investment portfolio…like investing (with the help of a properly credentialed investment advisor) in

[1] Source: https://www.gao.gov/blog/empty-offices-increase-risks-banks-lending-commercial-real-estate
[2] Source: https://www.wsj.com/articles/svb-financial-pulls-capital-raise-explores-alternatives-including-possible-sale-sources-say-11de7522

short-term US Treasury securities or in appropriate mutual funds that hold such securities. But what about cash that your organization simply wants to keep in the bank?

It is generally true that the larger the bank, the more likely it is that federal regulators would deem it too big to fail. So, if your organization wants to bank with a big bank, that could be an appropriate strategy. Bankrate offers a list of the 15 largest banks in the US.[3] Keep in mind, however, that one of the banks that failed in 2023 was the 14th largest bank in the country at the time it failed.

***Is there a way to reduce the risk associated with your large bank account balances, even with a local or regional bank? Yes.***

A number of local and regional banks participate in programs offered by IntraFi Network, LLC (IntraFi).[4] IntraFi's website describes its two main programs, ICS and CDARS, as follows:

> Using IntraFi Cash Service℠, or ICS®, and CDARS®, you can access millions in FDIC insurance for cash deposits from IntraFi® network banks and enjoy the simplicity of banking with just one trusted, local institution. Conveniently and easily secure funds placed into demand deposit accounts, money market deposit accounts, or CDs.

Banks that participate in the IntraFi network allow customers to maintain a relationship with one bank and have FDIC insurance coverage for deposits well in excess of the standard FDIC coverage cap of $250,000 per depositor per bank. The network allows for the larger deposits to be spread among multiple banks in the network in amounts within the $250,000 FDIC cap while maintaining one point of contact with one participating bank. IntraFi offers programs for demand deposit (checking) accounts, money market accounts, and CDs. Participation in the IntraFi program with a participating bank may carry a fee. The fee may apply as a reduction in the interest rate you earn on your deposit balances.

The IntraFi website, which says that thousands of financial institutions across the country participate in its programs, has a web page that allows you to find banks that participate in the program,[5] as well as a FAQ page.[6]

## Summary and Conclusion

Nonprofit leaders should pay careful attention to the safety of their organizations' bank deposits in this economic environment. One potential solution to consider is the IntraFi network of participating banks that allows depositors to maintain FDIC-insured deposits well in excess of $250,000, with one bank serving as the point of contact.

[3] Source: https://www.bankrate.com/banking/biggest-banks-in-america/
[4] Source: https://www.intrafinetworkdeposits.com/
[5] Source: https://www.intrafinetworkdeposits.com/find-intrafi-network-deposits/
[6] Source: https://www.intrafinetworkdeposits.com/faqs/



 