May 1, 2023, Volume 15, Issue 3

Association Banking: Factors to Consider When Selecting a Financial Institution

When it comes to banking, ensuring the safety and security of your association's deposits is paramount. Domestically, the Federal Deposit Insurance Corporation (the "FDIC") provides deposit insurance to member banks, which helps protect depositors' funds in the event of a bank failure. FDIC-insured banks are subject to strict regulatory requirements, including capital adequacy standards, regular audits, and consumer protection regulations. FDIC insurance provides coverage up to $250,000 per depositor, per account ownership category, at each FDIC-insured bank. While deposit insurance is one of the greatest benefits of placing funds at a FDIC-insured bank, it's important to note that membership is not a guarantee of a bank's financial stability (even FDIC banks can fail).

In March, the sudden collapse of both Silicon Valley Bank and Signature Bank (New York), prompted the U.S. government to approve plans to safeguard depositors at these institutions. In an effort to restore faith in the banking system and secure other institutions affected by the instability sparked by these bank failures, the Federal Reserve created the "Bank Term Funding Program" and made additional funding available to eligible depository institutions to help assure they have the ongoing ability to meet the needs of their depositors. Even more recently, JPMorgan Chase & Co acquired the majority of First Republic Bank's assets following seizure by regulators.

For these reasons, Boards should ensure that all deposit funds over and above the $250,000 threshold have some additional layer of protection. Such defenses may include depositing funds at multiple FDIC-member banks, obtaining private insurance for excess funds using a depositor/surety bond, or enrolling in a reciprocal deposit network. As an example, through a single banking relationship, the **IntraFi** deposit network offers access to FDIC insurance for large-dollar deposits by placing excess funds at separately chartered FDIC banks.

When evaluating a bank, additional factors should also be considered. Opening a deposit or investment account with a financial institution that does not specialize in association banking can be an involved process, which may require one or more Board officers to sign account opening documents (often in person), provide personal identifying information, and initiate account funding. For this reason, Sentry Management has established professional relationships with financial institutions that understand and specialize in community association banking. In addition to the accounting and financial reporting services, Sentry further offers enhanced banking services to the communities we are fortunate to serve. Through negotiated deposit agreements, partner banks offer Sentry clients FDIC insurance for cash sweeps up to $150 million per depositor, as well as dedicated community association services like fee-free banking, secure deposits, competitive interest rates, and fully integrated reporting to speed up the fraud detection, financial reporting and reconciliation processes.

In an upcoming edition of the Community Builder, we will discuss rising interest rates and the value of codifying an Investment Policy that outlines specific guidelines for how Boards that govern sizeable operating and/or reserve funds can protect and invest their association's deposits.

The information contained in this article is provided for informational purposes only and should not be construed as legal advice. No recipient of this content should act or refrain from acting without seeking the appropriate legal or other professional advice. The FDIC insurance maximum per insured depositor per bank is $250,000. The FDIC insurance maximum for insured cash sweeps is up to $150 million per depositor.

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