

Are Your Home Owners Association Funds Safe In The Bank?



Strategies To Prevent And Manage Bank Failures In 2023

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Introduction

A bank failure isn't something you see every day, but it's not entirely out of the realm of possibility. In early 2023, the abrupt collapse of some banks set off alarms and rekindled fears of a broader financial crisis, echoing the 2008 recession. The recent failures of Silicon Valley Bank (SVB), Signature Bank, and First Republic have shaken public confidence in the U.S. banking industry¹, leaving HOAs board members genuinely concerned about the safety of their money.

Ensuring that funds have FDIC insurance coverage -which safeguards eligible deposits of up to \$250,000 per depositor, per bank, is a paramount concern for HOAs. **But what happens when deposits exceed the \$250,000 threshold?** While the FDIC may cover the account up to this limit, any surplus funds would remain vulnerable in the unfortunate event of a bank failure.

In such cases, experts recommend splitting funds into deposits of less than \$250,000 across different FDIC-insured banks to ensure safety. However, this approach can be complex, time-consuming, and represent a barrier to liquidity.

Many modern institutions (including Modern Bank) partner with services to ensure ALL your funds are protected and can be kept in just one place. IntraFi, for example, is a platform that helps financial institutions keep depositor funds secure and in one place. The IntraFi network operates by establishing accounts at numerous FDIC-insured banks within its network of over 3,000 institutions. This enables our clients to secure full FDIC insurance for their funds while managing a single relationship with Modern Bank, eliminating the drawbacks of managing multiple accounts at different banks, each with unique specifications and withdrawal limits.



To help navigate this climate of banking instability, we've prepared this whitepaper with everything you need to know about protecting your HOA's funds. It includes practical guidelines, strategies, and recommendations from our experts.

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Introduction	1
Table of Contents	2
The Responsibility Of The Boards	3
Key Considerations When Choosing A Bank Account For Your HOA	5
a. Security	6
b. Liquidity	7
c. Returns	7
Certificates of Deposit (CDs)	7
CD Ladders	8
Money Market Accounts (MMAs)	8
d. Efficiency and expertise	9
e. Convenience	9
Alternatives For Keeping Your HOA's Funds Safe Above FDIC Limits	10
HOA Strategies To Keep Their Money Safe In Case Of Bank Failure	12
Notes and References	15

The Responsibility Of The Boards





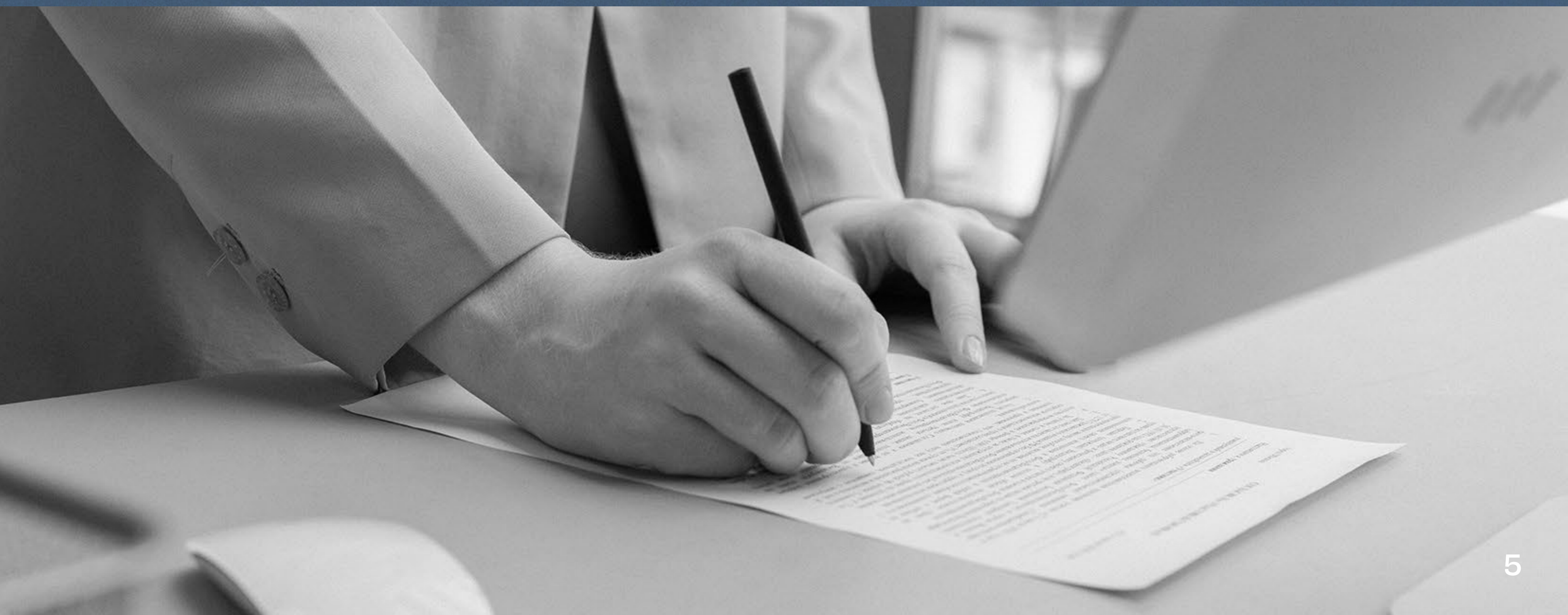
To prevent the risk of losing their money in the face of potential bank failures, HOAs must adopt some policies and responsibilities to **keep their funds safe**. First, it is necessary to confirm that any bank holding deposits is financially sound and that it is an FDIC-insured institution.

"While the risk of chasing higher returns may be tempting, boards must **prioritize the utmost security** for their HOA funds."



The second thing is to prioritize the safety of the funds rather than the return. Some experts point out that many fiduciaries choose banks that offer higher interest rates without looking after the safety of the funds². The temptation for boards to chase a higher return is always there and can create inherent risk, even more so in today's volatile financial climate.

Key Considerations When Choosing A Bank Account For Your HOA



According to experts³, depositors tend to move their money to larger banks when smaller banks face a crisis, as they believe that some banks are "too big to fail." This belief is false because any banking institution can fail unexpectedly under the right circumstances.

When selecting a banking institution to protect your HOA's deposits, boards should focus on objective criteria, always **looking after the proper funds' management**⁴. With this in mind, in order of priority, the main elements to consider are the following:



Security

The first step in choosing a deposit account that provides optimal protection for your funds is **ensuring the bank is FDIC-insured**.

You should also be aware that the FDIC has an insurance limit for each depositor. This \$250,000 limit covers all accounts held at a single bank. However, it is common for many HOAs to manage funds exceeding this amount. If this is the case, check that the bank offers other insurance alternatives -such as **IntraFi Network Deposits**^{*}. We will cover more on this subject in section five of this paper.



Liquidity

Our expert advice to clients is to always keep a healthy balance between liquid money market accounts and fixed-rate CD accounts, as this helps protect associations from changes in interest rates. We also recommend maintaining a liquidity level equivalent to three months of operating expenses. Leaning on your banking institution to help you **maintain a good cash flow** will always make life easier for your HOA members.

That being said, you should not rely on this report to make financial decisions and should always consult with your financial advisor or other advisor directly.[^]

Returns

We understand that it's rare for HOAs to use their reserve funds regularly. Therefore, we always recommend **checking out the interest rates** offered by the banks, as the HOA's bank account should be able to generate returns over the medium to long term.

It may also be beneficial to look for competitive rates in money market and CD offerings. This is the perfect chance to harness the expertise of your bank. They should be willing to give you assertive feedback and strategies tailored to your association.



Here are some of the more common options:

Certificates of Deposit (CDs)

CDs pay interest on a lump sum for a fixed period . Unlike savings accounts, the money must remain intact until the agreed date. They are a safe and conservative option as their return is guaranteed, and they are not vulnerable to market volatility.

[^] Nothing contained in this white paper is intended to constitute investment, legal, tax or other professional advice. You should not rely on this report or data accessible on Modern Bank's website for making financial decisions. You should consult with your financial advisor, tax advisor, other advisor directly.

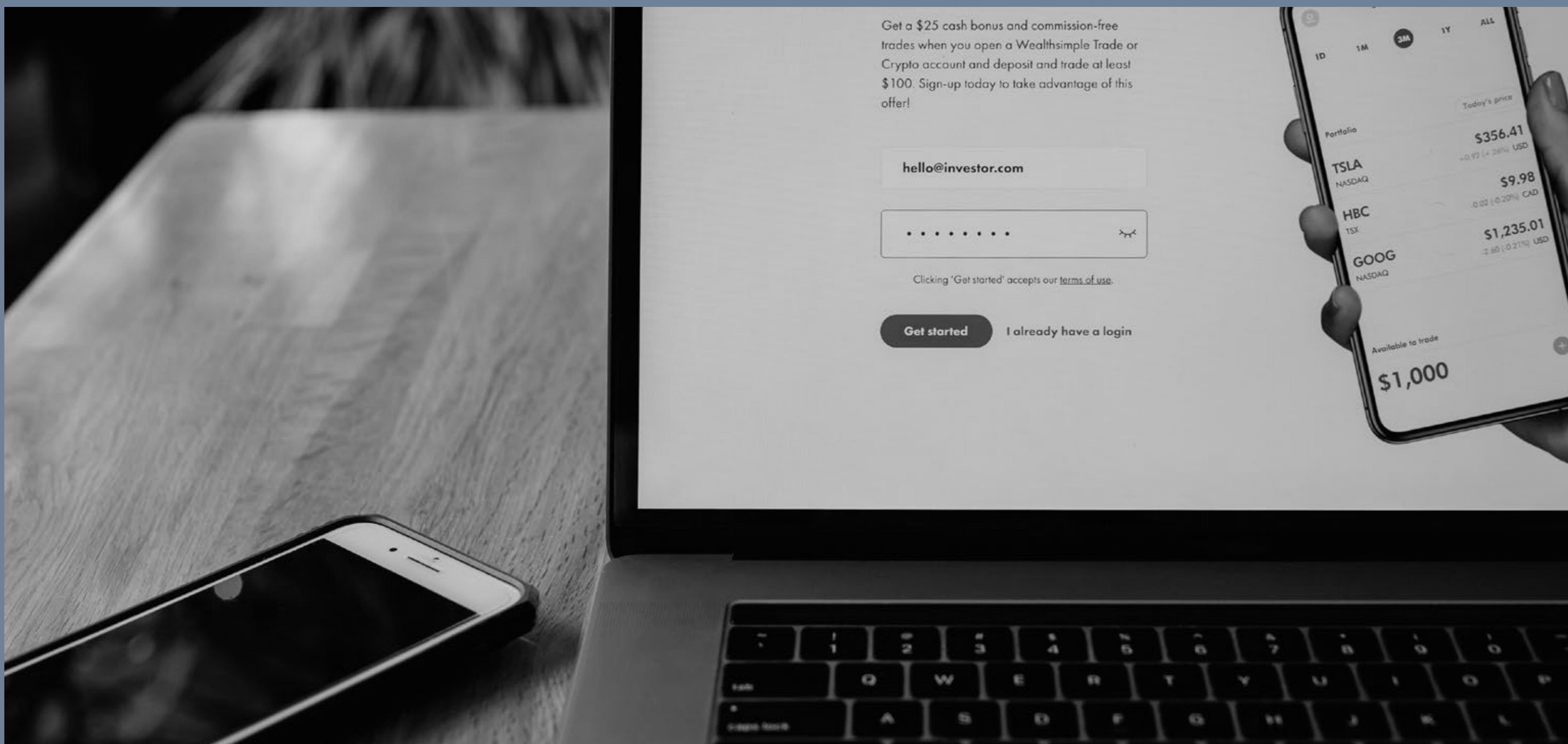
CD Ladders

In times of inflation, a strategy like a CD ladder may be a good option for your HOA⁶. The dynamics of a CD ladder are based on having multiple certificates of deposit (CDs) with different maturity dates, as this provides depositors with a fixed rate of interest and a regular flow of liquidity.



Money Market Accounts (MMAs)

An MMA may be a good option if your HOA has short-term plans for your funds⁷. MMAs are much like any other account but have the advantage of paying much higher interest rates and offering certain privileges for checks and debit cards. Depending on the institution, they may have certain restrictions.





Efficiency and expertise

Finding a **suitable bank is key to helping your HOA manage its unique financial needs**, which may involve adhering to federal and state regulations as well as internal governing procedures.

Choosing a bank with the necessary experience to manage HOA reserve funds and operating accounts, like Modern Bank, can help boards navigate the complex rules governing payments. Plus, this can help HOAs mitigate the risks of trying to manage funds on their own, which include the potential for fraud and other problems caused by limited internal controls.



Convenience and Support

Your bank should be able to process payments quickly and respond in the shortest possible time in the event of an error. The most popular payment methods for HOA installments in the past included cash or checks. However, online payments have become the preferred method for many homeowners.

For this reason, it is best to look for a bank that offers **multiple payment options** –both online and offline – along with **good customer service and personalized attention** tailored to the specific needs of your association.

Alternatives For Keeping Your HOA's Funds Safe Above FDIC Limits





Protecting your funds has never been more critical. For accounts that exceed the \$250,000 FDIC limit, HOAs need to look for banks that offer insurance through services like the **IntraFi Network Deposits**^{*} program. This type of deposit eliminates the need for HOAs to go from bank to bank and lets them deposit their money with a single institution.

When you have deposits at a single bank, you get up to a maximum of \$250,000 in FDIC insurance at that bank. Through IntraFi Network Deposits^{*}, you can effortlessly access **multimillion-dollar FDIC protection via a single bank relationship**. This is achieved by dividing a large deposit into amounts that fall within the standard FDIC insurance maximum of \$250,000. These amounts are still placed in deposit accounts at other network banks, accessible through your primary bank. Using the IntraFi Network Deposits program, you can extend your FDIC protection up to \$150 million.

The IntraFi Network Deposits^{*} program has been tested with thousands of depositors and billions of dollars over the years. It's designed to protect large depositors against loss of funds if any of the banks in the network fail.

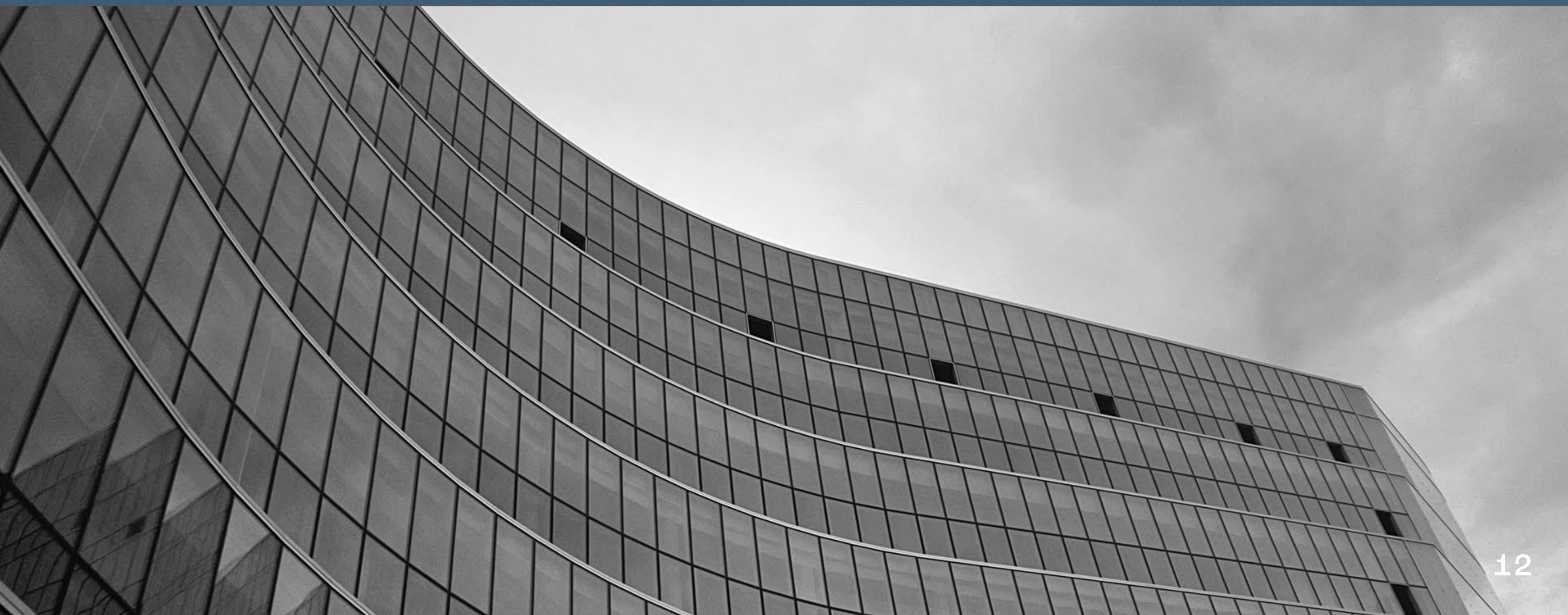
IntraFi doesn't directly charge depositors to use its service, but banks in the network may charge their own fees, including monthly fees or excess withdrawal fees. There may also be a reduction in rate associated with using the IntraFi network.

At Modern Bank, we do not charge fees for using the IntraFi Network Deposit, and we also accommodate your liquidity needs with unlimited withdrawals on money market accounts.

For more information, please see <https://www.modernbank.com/fdic-insurance/>



HOA Strategies To Keep Their Money Safe In Case Of Bank Failure



1 **Stay informed** about the status of your funds, your bank's financial health, and any regulatory actions or news affecting your institution.

2 Do not hesitate to contact your bank if you have any questions. Ask the right questions and **gather all the necessary information** before making any decision.

3 **Be transparent** and keep the community informed of any situation and its potential impact on their expenses, dues, or association services.

4 **Review and update** your HOA's financial policies and procedures – from financial controls and documentation to audits, loan agreements, and more.

5 **Consult with your HOA's legal and financial advisors.** They will advise you on the best course of action and help you navigate the complexities of the situation.

6 **Develop a contingency plan** that includes an emergency reserve fund, lines of communication, and insurance coverage.



In a scenario as volatile as the current economy, being prepared for any eventuality is fundamental. In this paper, we have provided you with essential information, not only to prepare for a potential bank failure, but also to help you make informed choices for **safeguarding your HOA funds**.

"Building a **strong relationship** with your bank is crucial to protect your HOA's deposits."

At **Modern Bank**, we provide bespoke solutions to meet the financial needs of HOAs. The Modern Bank IntraFi Network program extends FDIC insurance coverage up to the IntraFi limit of \$150 million, ensuring that your entire deposit is fully protected. All this with the convenience of a single account and the personal service of Modern Bank. Additionally, you will be able to track account activity, balances, and other information online and directly through Modern Bank. This ensures your deposits are protected and easily accessible when needed, providing peace of mind and complete transparency.



Notes

- * Other terms & conditions as well as possible rate reductions may apply to the IntraFi Network Deposits Feature (see www.intrafinetworkdeposits.com for additional information.)

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and let us help you build

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