ASSESSING YOUR BANKING RELATIONSHIPS

Recent bank failures have prompted nonprofit leaders to examine their current banking relationships, reflect on the criteria to consider when choosing a banking partner, and weigh the benefits of having accounts at multiple institutions. Nonprofit organizations have unique needs leaders must balance when choosing banking partners.

This resource provides an overview of types of banks to consider, questions to ask when evaluating a banking partner, and how to assess your bank exposure.

TYPES OF BANKING INSTITUTIONS TO CONSIDER

There are different types of banking institutions that nonprofits can choose from that all provide different benefits.

Banking Institution	Definition
National or Multinational Banks	For-profit institutions that provide a variety of products and services, including checking and savings accounts, credit lines, credit cards, and loans.
Local or Regional Banks	For-profit institutions that are like large banks but focused in a geographical area.
Credit Unions	Nonprofit institutions owned by customers that provide similar services to banks. Credit unions are members-only institutions; eligibility requirements vary and may be based on geography, affiliation with certain schools, unions or employers, or some other criteria.
Community Development Banks[1]	For-profit institutions focused on economically distressed communities by providing capital through lending and investment services. These institutions have community representation on their boards of directors.
Community Development Credit Union[1]	Non-profit institutions that provide affordable banking services to low-income communities. Similar to credit unions, these institutions are owned by their members.

EVALUATING A BANKING PARTNER

Many banks and credit unions provide similar services. How can nonprofit leaders differentiate between their options? When reviewing a current or selecting a new banking relationship, consider the following factors:

- Products and services
- Financial health and insurance
- Operations and usability
- Relationship management & customer service
- Investing options
- Nonprofit expertise & commitment
- Values alignment

[1] Community Development Banks (CDBs) and Credit Unions (CDCUs) are types of Community Development Financial Institutions (CDFIs). CDFIs focus on providing financial services to under-resourced communities including lending options and venture capital.

Products and Services

You're selecting a bank because you are looking for a financial service. Make sure your bank has the products and services you need.

- What are the different account types available?
- What are the interest rates for those accounts?
- Are there any balance requirements or fees for those accounts?
- What credit card options does the bank have?
- What are your options for lines of credit or bridge loans?
- What other loan options (e.g., mortgages, construction loans) are available and what are the terms?
- What other services might the bank provide?
- Do they provide services in the locations where your work is conducted?

Financial Health and Insurance

You want to make sure your assets are as safe as possible. It's key to evaluate the underlying financial health of the bank and confirm insurance.

- Is the bank insured by the FDIC? You can check this by searching for the bank on the FDIC website.
- What credit rating does the bank have? A high rating from Moody's or S&P Global means your bank has a higher likelihood of meeting its financial commitments.

Operations and Usability

It's important to understand the operational capacity of the bank and how easy it is to use their services.

- What controls do they have in place to safeguard your funds (e.g., Positive Pay)?
- How quickly are transfers processed?
- Do they have an online portal that's easy to use?
- Can you manage your money in the online portal easily?

Relationship Management & Customer Service

Banks are providing a service and you want your banking partners to be responsive to your needs. If you have a good relationship with your bank, negotiating different terms may be easier.

- Will you be able to get to know your banking team?
- Does the bank give you a dedicated relationship manager?

Investing Options

If you have a significant amount of cash that exceeds your current operating needs, you may want to consider what investing options the bank has.

- What short term investment vehicles are available?
- Where are those vehicles invested? Are they aligned with your values?

Nonprofit Expertise & Commitment

Nonprofits have specific needs and financing opportunities that you want your banking partner to understand. Ask peers where they bank to find out more.

- Does the financial institution have a group of nonprofit specialists?
- Does the financial institution provide any resources, discounts or offers to nonprofit organizations?
- Has the bank assisted other nonprofits in navigating loans, bonds, or other nonprofit-specific financing options, if needed?

Values Alignment

Your mission matters. Ensuring your banking partner shares your values may be an important factor in your decision and impact your reputation.

- What is the bank's code of ethics? Can you review it?
- What is the bank's commitment to your mission area?
- When using investment vehicles, is the bank investing with an Environmental, Social and Governance (ESG) lens?
- Could you bank with a Community Development Financial Institution (CDFI) or a Minority Depository Institution (MDI)? MDI is a formal federal designation for financial institutions owned or directed primarily by African Americans, Asian Americans, Hispanic Americans, or Native Americans.

ASSESSING YOUR BANKING STRATEGY

Here are some key considerations when reviewing your banking relationships for exposure:

Different types of banks. What types of banks are you partnered with? Could you have a different type of bank that would provide different benefits? For example, during the Paycheck Protection Program loan and forgiveness process, some nonprofits found it easier to access these loans with a small, local banking partner and opened accounts at those institutions.

Diversity of partners. Which banks are your accounts payable processor, payroll processor, and credit card providers banking with? Is it the same bank as you? Do these providers ask you for payment up front to make payments on your behalf? You may want to consider opening an account with a bank that is different from the institution your vendors use to mitigate your exposure to bank failure.

Number of banking partners. Many nonprofit leaders and board members have considered opening additional accounts at different institutions to keep the cash in an account under the FDIC insured limit.[2] However, adding more accounts at additional banking partners has an impact on your finance infrastructure. In some cases, funds will need to be transferred regularly to support operations, and each account you open will need to be reconciled on a regular basis, increasing the amount of work your finance department needs to complete to close the books and produce financial reports.

REFERENCES AND RESOURCES

"Nonprofit Banking: 5 Things Every Nonprofit Should Know" - Donorbox Blog

"What is a CDFI?" - Opportunity Finance Network

"Where We Bank Matters" - Leap Ambassadors

"How to Check Your Bank's Financial Health" - Troy Barrow, LUTCF via LinkedIn

[2] The Federal Deposit Insurance Corporation (FDIC) insurance limit covers $250,000 across all deposit accounts per customer at a single institution.