Avoiding Bank Failures and Managing Cash

Keeping your money safe is paramount.

BY MARK E. BATTERSBY

The recent wave of bank failures has put a new focus on the security and stability of financial institutions. Even with protections in place, a bank's failure can be disruptive, causing delays and confusion regarding access to funds, not to mention the potential impact on the funding that is so necessary to every podiatric practice.

Most small businesses and professional practices face little risk of a failed bank. The Federal Deposit Insurance Corporation (FDIC) insures deposits of up to $250,000, an amount far less than the $12,100 balance for most small businesses revealed in a recent JPMorgan Chase Institute survey. The potential risk increases for practices or businesses with employees.

The Payroll Exception

Payroll costs are among the biggest expenses for most in the podiatric community. One survey of more than 300,000 small businesses revealed businesses with 50-99 employees, nearly half of all businesses surveyed, had monthly payrolls above $250,000. However, for the record, only 20% of all small businesses and professional practices have employees which, according to the SBA, means few have significant payroll costs that can push their deposits above $250,000.

Avoiding Possible Bank Failures

Now that the panic from the collapse of not only SVB but also Signature Bank appears diminishing, the experts are suggesting that small business owners should examine their accounts to determine their level of risk and protect their deposits from potential future bank failures. Diversifying accounts is usually a good idea. As mentioned, the FDIC insures each depositor at each institution—not separate accounts at one institution. Having a second banking relationship makes it easier to quickly wire funds to safety when worries develop about one being unstable.

Since these protections usually come into play only after-the-fact

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(i.e., after the failure of a bank), it is much more critical that podiatric practice principals and managers take the necessary precautions to avoid needing those protections. The safest course of action is to do your own due diligence and distribute your risk.

A typical Due Diligence Checklist might include:

- Assessing the overall health of the practice's bank
- Reviewing the bank's investments
- Ensuring the bank participates in so-called "Stress Tests"
- Regularly monitoring the bank for material changes, and
- Protecting deposits beyond FDIC depositor protection such as with accounts in more than one institution.

Mitigating the Risk

Since 2009, 513 banks, the majority of them regional banks, have failed. The good news is that despite the recent failures, figures show that bank failures are becoming less frequent, although they should remain as a major factor in every podiatrist's planning. Because it isn't feasible to avoid banks altogether, a number of strategies exist to further minimize the risk of a failing bank.

- *Spread the Funds.* As mentioned, maintaining accounts at more than one bank to remain under the FDIC limits.
- *Stay Within the Limits.* The FDIC, as mentioned, insures up to $250,000 (per depositor, per insured bank for each ownership category). Another government agency, the NCUA (National Credit Union Association) insures $250,000 in the increasingly popular credit unions.
- *Due Diligence Not a One-Time Thing.* Monitoring the health of the podiatric practice's bank including its stress test information, capital ratios, and other financials should be a regular routine.
- *A Cash Cushion.* Good times or bad, it's rarely a good idea to put everything in cash. It's a good idea to have some liquid investments such as money market accounts or short-term Treasury bills. Despite the current low returns, they provide a safety net.
- *Payment Processors.* Choosing a secure payment processor that manages the logistics of accepting credit and debit card payments is a necessity. Cyber-attacks, money laundering, fraud and, of course, bank failures are things to which payment processors are vulnerable.
- *Backup Plans.* It is not only the possibility of a bank failure that makes backup plans so important. Alternative funding sources offer one way to maintain operations in the event of a bank failure or other potentially damaging event.
- *Keeping Abreast.* Keeping updated on financial news, regulatory changes, and market trends are important in today's economic climate. So too, is the advice of experienced financial advisors, accountants, and attorneys.

Healing By Bank

Surprisingly, it is banks that may offer the most protection from failure. The IntraFi Network, a system that can split a customer's large deposits into small chunks that are below the $250,000 cap, sends those chunks to other banks in the system. The result? Customers have multiple FDIC-insured accounts without having to open each account.

The first option involves the bank chopping a customer's money into certificates of deposits (CDs) of less than $250,000 before placing those accounts in other institutions. While the CDs earn interest, the money can't be withdrawn before the CDs mature.

A second option involves a so-called "sweep account" where a customer's balance in excess of $250,000 is "swept out" to other banks periodically in smaller blocks. With both options, deposits are protected by the FDIC because technically they are sitting elsewhere.

Although free, banks usually limit the service to only practices or businesses with uninsured deposits.

Profits from Treasury-Related Actions

All podiatric professionals know how difficult managing the operation's finances can be. Tracking profits and losses, planning future expenditures, and securing expansion capital can be challenging. One answer is Treasury Management, those back-office, behind-the-scenes services that enable small businesses and professional practices to make and receive payments electronically, in-house or through a financial services provider.

Although accounting software can usually handle day-to-day cash flow management, treasury management usually involves more. Treasury management, both in-house and via outside providers, includes managing the operation's holdings with the ultimate goals of managing its liquidity and minimizing potential risk.

Specifically, treasury management can help those in the podiatric community:

- Accept deposits and credit card payments
- Make payroll, vendor, and tax payments
- Paint a correct, current, and comprehensive portrait of the practice's financial health, and
- Monitor accounts and use fraud protection services.

A simple switch to electronic deposits, wherever possible, could improve cash management, keep deposits safer, and save time. Plus, there is faster notification of attempts to use checks where there might be a lack of funds.

For some practices, in-house treasury management might incorporate

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the clearing network for electronic payments, the Automated Clearing House (ACH). ACH is an efficient and economical way of making and receiving payments.

ACH payments are made by directly transferring funds from one bank to another, cutting out the use of paper checks. While it costs an average of $1.22 to process a paper check, the same payment can be processed for pennies using ACH.

Funding in Today's Topsy-Turvy Financial Arena

During a credit crunch, it is no secret that banks significantly raise their lending standards, making it difficult for small businesses and professional practices to get loans. Borrowers are required to agree to more stringent terms and higher interest rates as banks attempt to reduce their risk.

In a recent National Small Business Association (NSBA) poll on the current state of lending following the collapse of Silicon Valley Bank (SVB), more than half of the respondents said they were unable to obtain adequate funding, even prior to the SVB collapse with a third claiming terms have become less favorable.

It's not that banks are reluctant to lend to small businesses and professional practices but, rather, traditional financial institutions have outdated, labor-intensive lending processes and regulations that are often unfavorable to smaller businesses and organizations.

According to Statistics, a logistics portal for market data, there are 487,613 small to mid-sized healthcare firms, such as doctors' offices, labs, diagnostic facilities, blood banks, and outpatient venues. According to *Fox Business News*, those firms are facing staffing shortages, supply chain issues and a need for capital. When credit dries up and liabilities become harder to roll over, there may be a need for alternative financing.

Alternative Financing

Alternative financing refers to any method through which podiatrists can acquire needed capital without the assistance of traditional banks. Generally, if a funding option is based entirely online, it is considered an alternative financing method. By this definition, options such as crowdfunding, online loan providers and cryptocurrency qualify as alternative financing.

Among the reasons why a podiatrist might turn to alternative financing for his or her practice are:

- Lower credit requirements: Traditional banks are almost certain to decline loans to borrowers with poor credit.
- Faster approval: Traditional bank loans can take weeks to be approved, whereas some business loan alternatives provide access to funding in as little as one week.
- Easier qualification: Not all small practices or businesses meet the additional requirements to apply and be approved for traditional loans. In these cases, business loan alternatives are helpful.

Online V. Brick-and-Mortar

Small-business lending is becoming a big business, with hundreds of millions of dollars raised from unique "platforms" such as Crowdfunding, Peer-to-Peer Lending, and Marketplace Lending. The entire lending marketplace is an emerging segment of the financial services industry that increasingly uses online platforms to lend directly or indirectly to consumers and small businesses.

As the needs of investors and financial services customers become more complex, there is a demand for effective tools to simplify the process. So called "digital transactions" involve constantly evolving methods where Financial Technology (FinTech) companies collaborate with various sectors of the economy to take advantage of new lending and capital raising opportunities.

Financial institutions are increasing the digitized services they offer while the financial marketplace competes with offerings such as peer-to-peer lending, alternative online financing, and crowdfunding. How can a podiatrist take advantage of these speedy financing options while avoiding the risks associated with borrowing from so-called "shadow banks"?

Marketplace Lending

While the newer "marketplace" funding remains largely undefined, it encompasses lenders that make loans to higher-risk, lower-income borrowers; micro-finance; and larger-scale lenders that market their products to traditional consumers, small businesses, and professional practices. Online marketplace lending refers to the segment of the financial services industry that uses investment capital and data-driven online platforms to lend directly to small businesses, practices, and consumers.

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The U.S Treasury has issued a rather broad definition for "Marketplace Lending," stating that it is, "The segment of the financial services industry that uses investment capital and data-driven online platforms to lend either directly or indirectly to small businesses, professional practices and consumers." They go on to say, "Companies operating in this industry tend to fall into three general categories: (1) Balance sheet lenders, (2) online platforms (formerly known as "Peer to Peer" or "P2P"), and (3) bank-affiliated online lenders."

While the volume is tiny in comparison with traditional bank lending, marketplace lending has experienced rapid growth, with new lenders originating over $12 billion in loans. Marketplace lenders employ new, largely automated underwriting processes.

In fact, some online lenders purportedly rely on "big data" not evaluated as part of traditional bank underwriting processes. Unfortunately, there has yet to be one consistent, concise definition of what market-

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place lending truly means or universal guidelines for qualifying.

The Path to Coping with Potential Bank Failures

The best way to protect one's podiatric practice in the event of a bank failure is to bank with the biggest U.S. banks. While amounts over $250,000 are not insured, the likelihood of these banks failing is much lower than with regional banks. If, however, your bank does fail, the following steps should be taken:

• Communicate with patients and suppliers.

• Sharing the practice's story on social media could bring unexpected support.

• Begin forming new banking relationships immediately rather than waiting for a regulatory fix.

• Have short-term liquidity solutions in your investment plan as there is rarely much time to react to a bank failure, and, once again,

• If it can be avoided, don't put all of the practice's cash in a single bank.

Unlikely But "If"

The recent wave of bank failures both in the United States and abroad has put a new focus on the security and stability of financial institutions. Even with protections in place, a bank's failure is disruptive to individual and corporate customers, causing delays and confusion regarding access to funds, not to mention the potential impact on funding that is so necessary to every podiatric practice.

Although, in the short term, bank accounts remain safe because regulators have shown a willingness to step in when needed, keep in mind that most protections are usually only available after the practice's bank has failed. In addition to immediately conducting due diligence, many experts advise it's probably a good idea for small businesses to diversify their funds while cementing their relationship with the practice's banker or bankers.

Coping with the potential of a bank failure is something that should be done today. In addition to being prepared, the strategies that reduce the risk of exposure to a bank's failure can be quite profitable for every podiatric practice and its principal(s). **PM**

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