#### **Association Bank Services**

Some banks have an Association Services division that offers checking and savings accounts that feature premium interest rates and no service charges. Plus, Association Services divisions usually have a staff specially trained in association banking and non-profit corporation statutes.

Very large banks often don't like dealing with community groups because the amounts of money involved are so small. Your best bet is to approach a smaller, local bank, preferably one that you or one of your members already has an account with.

You should be very careful what you do with your members' hard-earned cash. Investments such as stocks and bonds over the past few years have proved quite tempting to many associations. And those that gambled with their reserve funds often lost badly. When you are responsible for the long-term maintenance of your association, as well as for other people's money, you can not afford to put any of your reserves at risk, no matter what potential rewards await you. If your investments are not guaranteed or insured and the association loses money, your board may have breached its fiduciary duty to the membership, and it may be held accountable.

## Protect, Maintain, Enhance

Because of their fiduciary duty to the association, board members are held accountable for the financial actions they take. In more human terms, breach of fiduciary duty usually means disrupted communities and disrupted lives. When a board needlessly loses money through unsafe investments, members feel personally violated, and it's easy to understand why: It is their hard-earned money that has been lost. People are going to be angry, and they might take it out in litigation.

Unfortunately, the neighborhood as a whole suffers. Individual members are not the only ones hurt, since a breach of fiduciary duty often leads to lawsuits that in turn may affect property values. In many situations, pending lawsuits scare off potential buyers and foster animosity and discontent among neighbors.

### **Investing Tips**

- ✓ It's your money. But it also belongs to all the members, so be careful how you decide to invest.
- Always seek professionals to assist you. They have the knowledge and experience. Be sure they have insurance coverage in case something they do goes wrong.
- Never invest in any vehicle through which you can lose principal or through which your initial investment is at risk. Most associations stick to Federally-insured certificates of deposit (CDs) and avoid risky investments such as stocks and bonds.
- Be wary of mutual funds and bond funds.
   Research the sales commissions, liquidation fees, and administrative charges, and read the prospectus carefully.
- ✓ Every community association should have specific investment guidelines. A set of concise, detailed guidelines incorporated as part of the association documents provide vital information for homeowners and can help the board secure the association's future financial stability.
- ✓ FDIC Insurance covers up to \$100,000 per bank. It does not cover \$100,000 plus any





# **COMMUNITY SERVICES**

# NEIGHBORHOOD COMMUNICATIONS BANK ACCOUNTS



Community Services Division
Department of Environmental Services
City of Carrollton
1945 E. Jackson Road
Carrollton, Texas 75006

Phone: 972-466-4299 Fax: 972-466-3175 www.cityofcarrollton.com



Over time, every neighborhood organization accumulates money for one reason or another. Soon, a neighborhood organization must consider what kind of bank account to open and how to open the account. It is important to note that either a person or a corporation can open an account.

#### Step One:

- Determine several things before opening an account.
- Who will be signers on the account?
- What type of account? Will it be for checking or savings?
- Who will be responsible for maintaining financial records?
- How will these records be audited?

#### Step Two:

Obtain a tax identification number.

A tax identification number is a federal tax number that is filed with the IRS. In effect, it functions as a social security number for your organization. In addition, this number allows you to open an account on behalf of the association. This enables the bank to report the earnings of the account to the IRS. To receive a tax identification number follow these steps:

- Pick up form SS-4 (Application for Employer Identification Number) at the Internal Revenue Service Office or obtain the form online at: <a href="http://www.irs.gov/pub/irs-pdf/fss4.pdf">http://www.irs.gov/pub/irs-pdf/fss4.pdf</a>
- 2. Complete the form.
- Call the IRS office in Austin, Texas at (512) 460-7843 to receive the identification number by phone. Place the number provided in the area titled EIN, then mail the completed form to:

Internal Revenue Service Austin, TX 73301 Note: You can begin using the number immediately if this process is followed correctly.

## Step Three:

Gather other necessary documentation.

If you are a non-profit corporation, you must bring the corporate resolution form, sealed by the state, proving non-profit status.

If you are NOT a corporation or do not have a nonprofit status, then bring a copy of your bylaws or the minutes from your first meeting. You must also state the names and titles of people who can conduct business on behalf of the organization.

## Step Four:

Opening the account.

It is ideal if all signers on the account can be present when the account is opened. Personal identification such as a driver's license will be required of each signer, and at this time signature cards will also be signed. A resolution authorizing the bank account must be adopted by your corporate board or the members of an unincorporated association. The bank will provide you with this resolution.

## Signers on the Account

Signature cards must be signed by the current secretary of the neighborhood organization along with anyone else who will be signing on the bank account.

It is a good idea to require two signatures when withdrawing money. This minimizes possible abuse and loss of funds. Having three signatures registered with the bank will make it easier for your group to get the two signatures necessary to sign for a withdrawal.

# **Types of Accounts**

Checking: Any accounts open to individual customers are open to neighborhood organizations. The least expensive usually have minimum deposit requirements. Your association should obtain pre-numbered checks. The use of non-numbered checks is not an acceptable practice for neighborhood organizations.

Savings: If you make limited withdrawals, you might be better off with a savings account rather than a checking account. The best arrangement is often a savings account with checking privileges. These, however, usually require a minimum balance.

There are two things to consider when determining the type of bank account for your neighborhood association:

- 1. How often will you withdraw money?
- 2. The amount of money you have. Do you have enough to keep a minimum balance in your account or pay service fees, if any?

A savings account is best for most neighborhood associations. You can easily obtain a cashier's check or money order from your bank in order to pay periodic bills. A savings account as opposed to a checking account will have a lower opening minimum (the amount required to open an account), a lower minimum balance (the amount which has to be maintained in order to avoid paying a monthly fee), and a lower monthly maintenance fee (a fee imposed if you fall below the account minimum).

## **Monthly Maintenance Fee**

Look for a bank which offers a low minimum balance and little or no maintenance fees, as high fees can quickly deplete your funds. Ask the branch manager about getting fees waived because you are a neighborhood-based voluntary organization. It's always a good idea to form a relationship with your branch manager, who may also have money to give as grants to neighborhood groups and/or projects.