GUEST COLUMN

Bank failure are two scary words, how to tell if your bank is safe

BY MICHAEL SIPE

Few words strike fear into people like news of a bank failure, especially the failure of very prominent banks like Silicon Valley Bank (SVB) and Signature Bank. It's especially scary for small business owners. The cash to pay employees, vendors, landlords and lenders is on deposit in a bank or credit union — frequently a relatively small local financial institution. News of a bank failure is like a punch to an entrepreneurial gut. Fear-filled imagination can run wild. Some people panic… which is the worst response.

We're not used to hearing much about bank failures. Bank collapses were rare in the early 2000s. From 2001 to 2007, the U.S. saw an average of just 3.57 bank failures per year. Then 465 banks failed during the Great Recession. From 2015 to 2020, the U.S. saw an average of fewer than five bank failures per year. No banks failed in 2021 and 2022. Suddenly, we just saw the second and third largest bank failures in American history.

In the aftermath, you may be asking, "How do I know if my financial institution is solid, and my money will be safe in the months ahead?" Don't speculate and don't panic. Instead, ask quality questions and get useful information.

I asked three wise business leaders to suggest useful questions. One of my clients is a seasoned Silicon Valley CEO untouched by the SVB failure. His company proactively reviews and fine-tunes its business practices to assure redundancy, scalability, and stability. Key questions he asks to minimize risk include: Do we have any potential single points of failure in our business systems or processes?

What is the impact if one of those systems malfunctions?

Is the risk of that failure worth investing in a redundant system or process?

Do we have a process in place that requires us to regularly review these questions and seek out needed improvements?

Local banking leader Coby Horton, U.S. Bank Senior Vice President, offered these banking considerations: Have your banker explain your current FDIC coverage. It's not as straight-forward as one might think, and you're probably covered more than you might fear.

How diversified is your bank's client mix, income stream and mix of funding? The more diversification, the less likely it will be impacted significantly should anything catastrophic happen to any one area.

Ask your banker to compare your bank to its peers, in terms of overall debt rating and Liquidity Coverage Ratio. You can check out your bank or credit union's financial condition online at www.ncua.gov or www.fdic.gov.

Kevin Cole, CEO of MidOregon Credit Union, offered some thoughts relevant to small business owners: Business owners: understand you can have more than $250,000 of FDIC insured funds at a single institution. For example, if your business is a corporation or LLC, it's insured separately from your personal funds (subject to some restrictions). Husband and wife owners of an S-corporation may be able to insure up to $750,000 at one institution.

Understand the difference between huge national banks and community financial institutions. Any perceived safety with the giants must be weighed against the lack of responsiveness, service and support you may need to grow your business.

Community Financial Institutions (CFI) are critical to local economic development. Your local bank or credit union likely invests the funds you deposit back into the community. A thriving business climate needs both community banks and credit unions, since they make most of the loans that small businesses need to start and grow. The vast majority of CFIs are well managed and would never assume the type of risks SVB took.

Business owners should take responsibility to proactively minimize risks and avoid meltdown events. Ask good questions. Get good answers from trusted financial leaders. Settle your nerves. Focus on building your business.

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