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In This Issue

Everything You Need to Know About Banks and More

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8105 N.W. 58th Place
Fort Lauderdale,
FL 33321-4520

Tel. (954) 720-8750

Fax: (954) 720-1913

E-Mail:

cdonovan@bellsouth.net

Web Site

www.affordabl.com

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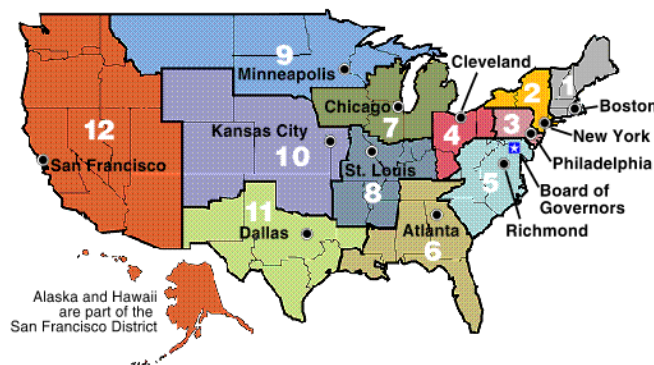
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Chuck Donovan

Everything You Need to Know About Banks and More

I handled banking relations for three major corporations for twenty-five years. Over that period I learned a lot about how banks operate and how I needed to manage the relationships with them. Here are some thoughts on how you can better deal with your bank.

The Federal Reserve System



The Federal Reserve, the Central Bank of the United States, was founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

Its duties fall into four areas: (1) conducting the nation's monetary policy; (2) supervising and regulating banking institutions and protecting the credit rights of consumers; (3) maintaining the stability of the financial system; and (4) providing certain financial services to the U.S. government, the public, financial institutions, and foreign official institutions.

Due to the size of the United States **we have twelve regional Federal Reserve Districts within the Federal Reserve System.** Each district has a headquarters city and one or more branches. For example, Atlanta is the headquarters city in Region 6 and Miami and Jacksonville are its branch cities in Florida.

Your Bank Account

As a bank consumer you must understand the different types of bank balances. **The one you see on your bank statement is the ledger balance.** It is a running balance similar to the one in your checkbook and disclosed by the bank on your monthly statement.

The other is the collected balance. It reflects the real funds in your account after your bank has collected your deposits and has paid your checks. It changes on a daily basis. You do not get credit for the deposits nor charged for the payments until the bank has received or paid out the monies. There can be a significant timing interval in either situation.

The collected balance will generally be lower than the ledger balance. It is not disclosed to you, unless you request monthly account analyses.



Check Holds

If you have ever been charged an overdraft fee when your checkbook and ledger

Affordable Business Services, a full service accounting firm, offers innovative business solutions to small and medium size companies through specializing in the training, and consulting in the use of QuickBooks business management software.

Chuck Donovan MBA brings over 20 years of financial expertise to the business having worked as a senior financial executive with firms ranging in size from \$20 million to \$3 billion in sales.

His broad, hands-on accounting and finance experience has taught him that financial information must be more than just a series of numbers.

He shows and helps business owners to use their financial information to increase their cash flows, improve their profits, and build their companies, so they can plan for a secure future.

A QuickBooks Professional Advisor and experienced problem solver, Chuck is a graduate of Dartmouth College and received his MBA from American International College.

balance show funds being in the bank, it is because banks place holds on checks you deposit before you can use the funds. In other words your collected balance is much lower than your ledger one.



It is perfectly legal. ***In 1987 Congress passed the Competitive Equality Banking Act, Title VI of which is called the "Expedited Funds Availability Act"*** and sets regulations on the availability and collection of funds for all financial institutions.

Called "check-holds", these delays can one, two, or five business days as follows:

- One business day for cash deposits, wire transfers, cashier's and certified checks, traveler's checks, and government checks,
- Two business days for local checks, and
- Five business days for out-of-state checks.

They set out the intervals until the deposits are cleared and available to you.

Banks and the Federal Reserve System

Banks could not operate if they had also to wait up to five business days for deposits to be available to them. This is where the Federal Reserve steps in and manages the banking system. Banks can clear the checks through the Federal Reserve receiving

- Immediate credit on all government checks,
- One business day credit on local and neighboring Federal Reserve districts' checks,
- Two business days credit on checks drawn on distant Federal Reserve districts' banks.
- Three business days credit on checks drawn on very remote banks – a rare instance.



To receive the credits banks must bundle and process the deposits in a specific manner and deliver them to their local Federal Reserve branch early each morning, usually before 6:00 AM.

Banks have other ways to clear the deposits quickly. For example, they may have "direct send" arrangements whereby the checks are delivered directly to other banks locally, regionally, or nationally providing there is significant check volume existing between the institutions. The direct send credit is faster than through the Federal Reserve.

The bottom line is that the bank has the funds available to itself for a few days before they are available to you.

Managing Your Bank Account

There are several things you can do to help yourself:

- Do public relations work,
- Read and understand the bank's policies,
- Ask for shorter check-holds,
- Use direct deposit for social security and other government checks,
- Use wire transfers for out of state funds,
- Transfer funds quickly from another bank account, and
- Keep your checkbook information current.

Public Relations



We tend to be nameless faces at a bank visiting it to make a deposit or withdraw cash. Set yourself off from the crowd. ***Get to know the key people at the bank*** – the manager and a couple of the platform staff. Tell them about your business.

If you are a businessperson, locate the small business division within the bank and do the same public relations activities with them. Tell them about the progress of your business, key accounts, and future expectations. Invite them to any company functions you may hold.

The better and more they know you the easier it will be in the future to approach them for your

special needs.

Banks Don't Always Have Money

Seems like a strange comment, but it is the truth.

Within every bank headquarters is a group whose responsibility is to forecast current and future inflows and outflows of funds. They consider committed financings, future marketing programs, Federal Reserve requirements and similar items to determine whether the bank has excess funds to commit to other deals. They do their forecasting on a short (less than three months) and long-term (a year or more) basis.

If you were turned down on a credit request, it may very well be that you approached the bank at exactly the time they were fully committed. It had nothing to do with your creditworthiness.

There were simply no extra funds available to satisfy your need. Their cash flow situation is constantly in the state of flux and could be different the next time you see them.

Be Prepared

The better prepared you are when you visit a bank the easier it is to encourage it to do business with you. This means writing down exactly what you are looking for, stating the reasons you need the extra money, and indicating how you plan to use the money, and showing what your plans are to repay it.

This is a document you will give to a bank officer at the visit. It shows them how organized and clear thinking you are. A written document makes it easier for the bank officer to make a decision and, if necessary, go to his superiors to receive a final approval.

Approach All Banks

There are banks on nearly every corner. One or more of them are always eager to take on new personal and corporate business. Each one has specific marketing programs to target certain categories of customers and businesses – accounts they want to have in their portfolios based on their experience and history with these categories.

Don't limit yourself to the bank you are currently doing business with. Approach every one when your financing needs arise. Make them feel that they are

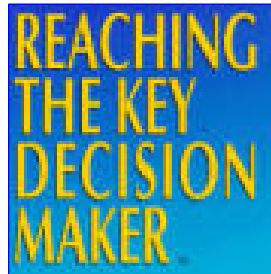


doing you a favor by granting you your wish.

Don't be afraid to negotiate hard and be prepared to walk away if their conditions are not satisfactory. There's always another one. You are certainly the type of account one of them is seeking. You just need to find that one and do your public relations work to entice them.

The Best Time

The best time to seek money from a bank when you don't need it. Seems like a strange comment, but, when you are not desperate, you are better able to assess strengths and weaknesses of the bank's offer. You are then able to negotiate unacceptable terms, ask for special considerations, and walk away if their deal is not to your liking. When you are desperate, you do not have this flexibility.



If the bank offers a really good deal, what do you do. You do not have a need at the present time.

Banks have many different types of financing products. For example, one of them is a personal or business line of credit. For a small monthly fee the bank commits to have available money you can get by simply calling them and telling them how much you want.

There is no obligation on your part to use it. It is a security blanket that protects you when you might desperately need money in the future. It is there.

Loan Committee

Banks love to talk about having to pass on all requests to a "loan committee". Don't be fooled or put off by this statement. It suggests there is a group somewhere within the bank that meets secretly to accept or reject all submissions. What the expression does is to give a bank officer someone to blame should a final decision be unfavorable.

The true loan committee and decision maker is usually the person you are meeting with or his direct superior.

Find out at the beginning of your meeting whether this person you are talking to has the responsibility and authority to make a final decision. If he does not, find the one who does and talk directly with him.