



MAKING WAVES ACADEMY MEMORANDUM

TO: FINANCE ADVISORY COMMITTEE
FROM: WALLACE WEI, MWA CFO
SUBJECT: BANKING UPDATE - RECENT DEVELOPMENTS, CASH MANAGEMENT APPROACHES, AND RECOMMENDATIONS
DATE: 5/25/2023
CC: ALTON B. NELSON, JR., MWA CEO

In this Memorandum, I would like to provide you with an update on our banking arrangements, recent developments, and recommendations for our cash management approaches. Please find below the comprehensive information for your reference:

Main Operating Account with Bridge Bank: Our primary operating account is held with Bridge Bank, a subsidiary of Western Alliance Bank. As of the end of April, the balance in this account stood at approximately \$9.5 million. It is important to note that the Bridge Bank operating account does not generate any interest income. However, it does provide us with an "earnings credit" that effectively offsets service fees. Last year, these fees amounted to approximately \$6,000.

Insured Cash Sweep (ICS) Program: In March, amidst the regional bank crisis, we made the decision to participate in Bridge Bank's "Insured Cash Sweep" (ICS) program. This program allows us to place our funds into accounts issued at other banks in a network of financial institutions that are insured by FDIC, in increments of less than the standard FDIC insurance maximum or \$250,000, to ensure that 100% of our accounts are FDIC insured. The funds deposited at other banks will be swept automatically to our main account to meet bill payment obligations when needed. The balance held within the ICS "account" generates an annualized yield of 2% as of April, offering us a competitive return on our funds.

Transfer of Funds to Chase Bank: In early May, when smaller banks were scrambling again as their share prices plunged, we initiated a transfer of \$3 million from our Bridge Bank operating account to Chase Bank out of an abundance of caution. Prior to this transfer, we already had a small fundraising account with Chase Bank, holding a minimal balance. This transfer was also made with the aim of diversifying our banking relationships and exploring alternative cash management approaches. Following the transfer, we have engaged in several meetings with Chase Bank to discuss various strategies and options for optimizing our cash management.

Chase Bank's "EOD Investment Sweep": During our discussions with Chase Bank, they presented us with their "EOD investment sweep" program. This program allows funds deposited in Chase's operating account to be invested in money market funds. The current yield on the "EOD investment sweep" is 4.95%. However, Chase Bank imposes a service fee of 25 basis points (bp), resulting in a net yield of 4.70%.

Bridge Bank's Matching Offer: Upon discussing our options with Bridge Bank, they have agreed to match Chase Bank's offer. Bridge Bank is willing to provide us with a net yield of 4.75% on our funds placed in its ICS "account, provided that



we keep our main banking relationship with them. This ensures competitive returns while maintaining our existing relationship. The rate will be updated regularly to reflect the prevailing money market rate minus 25 basis points, thus matching Chase Bank's offer.

Based on our analysis of the market conditions and considering the new information, I recommend the following approach:

Main Operating Account: I recommend maintaining our primary banking relationship with Bridge Bank and placing all funds (over \$6M as of this writing) in the ICS "account" except the minimum \$10,000 required to be deposited in the main operating account. This allows us to maximize the benefits of the ICS program to generate more interest income. As mentioned above, funds in the "ICS" account are highly liquid and will be swept automatically to the main operating account to meet bill payment obligations when needed.

Investment of \$3 Million with Chase Bank: I propose keeping the \$3 million transferred to Chase Bank in their "EOD investment sweep" program, which involves investing in JP Morgan Chase's money market funds. This decision serves two purposes. Firstly, it helps us diversify our banking relationship by potentially utilizing Chase Bank's products and services in the future that are unavailable at Bridge Bank. One example of such a product is laddered T-bills, which could become more attractive than money-market funds should the current rate environment change. Secondly, it is a precautionary measure taken due to the regional bank crisis, ensuring an additional layer of security for these funds.

By following this recommended approach, we can leverage the benefits of both banks. The majority of our funds will be in the ICS "account" at Bridge Bank, ensuring FDIC insurance, a competitive yield, and most importantly, the same level of liquidity as a checking account while maintaining our existing relationship with the bank. Simultaneously, the \$3 million held at Chase Bank will be invested in JP Morgan Chase's money market funds through their "EOD investment sweep" program, which offers a current net yield of 4.70% while also providing liquidity. This diversifies our banking relationship and provides an added layer of caution in light of the regional bank crisis.

Considering the projected interest income, assuming the current interest rate environment, we anticipate generating over \$400,000 in interest income next year. This projection is based on the current yield of the respective programs and our account balances.