The difference between investing and depositing your cash

Federated Hermes

Money market funds vs. deposit accounts

The main goal of any cash financial product is to provide ease of access to and stability of principal while generating a market rate of interest. The most widely used products are money market funds (MMFs) and traditional bank services such as checking, savings or money market deposit accounts (MMDAs). While these products share many features, MMFs have features that clients may value for their cash management solutions.

Over time, MMFs have historically outperformed bank deposit accounts (see graph below). At the heart of the matter is that cash left at a bank in a checking account or MMDA is considered a deposit, while cash put into an MMF is considered an investment. Bank deposits are backed, to applicable insurance limits, by the Federal Deposit Insurance Corporation (FDIC) in case of default by the bank. Since MMFs are considered investments, they are not guaranteed nor backed by the FDIC but they are regulated by the U.S. Securities and Exchange Commission (SEC).

When deciding where to put your cash, it is important to understand the differences between MMFs and FDIC-insured products like MMDAs. These differences can be broken down into considerations of safety, yield and liquidity, as shown below.

Safety

MMDAs:

MMDAs are insured by the FDIC, an independent agency created in 1933 in response to the many bank failures during the Great Depression. The FDIC guarantees a customer's money in checking, savings, money market deposit accounts and more, up to $250,000 (with other limitations). However, the FDIC does not protect against fraud or identity theft.

MMFs:

Retail and Government money market funds seek to maintain a per-share value of $1.00. Institutional prime and municipal MMFs are required to float their net asset values (NAVs) to four decimals at $1.000. All types invest in a diversified portfolio of short-term, high quality, low-risk instruments in the pursuit of relative safety. MMFs invest in a diversified portfolio of securities to help reduce risk or default from any single entity. Investments are subject to stringent rules on security type and and MMFs are not protected against fraud or identity theft.

Liquidity

MMDAs:

While clients have access to their accounts 24 hours a day, depending on the type of MMDA, banks do not make deposits immediately available. For example, funds from a deposited check or transfer may not be available for several business days. There's often a limit to ATM withdraws per day and transfers from savings accounts per month. Lastly, the FDIC does not guarantee when the principal will be available to the depositor if a bank fails, however, the historical standard has been to do so within two business days.

MMFs:

Money market funds purchase amounts generally settle same day or next day. Once settled, the entire client balance is available to be redeemed. In times of market stress, Retail and Institutional MMFs may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors.

Yield

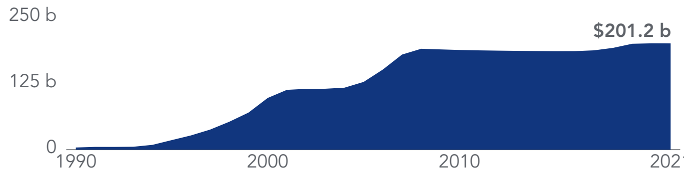
MMDAs:

Interest on deposits is set by the individual bank, typically based on a combination of factors including competitive pressures of market rates for deposits and rates the bank can charge borrowers.

MMFs:

Yields on shares of a money market fund are based on the market rate of portfolio investments, which have the potential to outperform MMDA rates.

Over $200 b estimated cumulative returns of Retail Prime MMFs over MMDAs



Source: ICI, iMoneyNet, FDIC
Cumulative incremental returns estimated from the average annual return premium/discount of Retail Prime MMFs over bank MMDAs multiplied by the yearly industry assets of Retail Prime MMFs.

Past performance is no guarantee of future results.

At some points, MMF returns have underperformed MMDA returns.

MMFs Are Not FDIC Insured, MMFs offer No Bank Guarantee, MMFs May Lose Value

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Beyond the overarching differences, the following technical distinctions are important to consider.

Comparison of MMDAs and MMFs

	Money market deposit accounts	Money market funds
Counterparty exposure	Concentrated in one institution	Spread across institutions; Generally no more than 5% of assets invested in one issuer
FDIC insured	Yes, but with a limit of $250,000 per depositor, per insured bank, per ownership category. The FDIC doesn't protect against fraud or identity theft	No, and MMFs are not protected against fraud or identity theft
Rate earned	Interest rate set by bank; accrued daily, paid monthly	Yield set by the market; accrued daily, paid monthly
Check writing	Available but number of checks per month may be limited by the bank	Available for many stable NAV funds but varies by share class
Debit card	Yes	Available with certain brokerage-based MMF accounts
Liquidity	**Withdrawals** Banks may impose size or amount withdrawal limits if they so choose.[1] Generally banks require a minimum balance be kept in order to avoid fees and do not allow withdrawals in excess of account balance. **Potential liquidity hindrances** Subject to FDIC insolvency process **Access** Checks subject to clearing, electronic transfer often available immediately	**Withdrawals** Size of withdrawals limited to account balance; number of withdrawals not limited **Potential liquidity hindrances** Subject to fees and gates in times of severe financial stress (except government MMFs) **Access** Withdrawals available same day or next business day
Minimum deposit/investment	Yes, set by bank	Yes, varies by fund and share class
Minimum balance needed	Yes, set by bank	Yes, varies by fund and share class
Definition of holdings	Deposit	Share/investment

[1]In response to Covid-19, in April of 2020, the Federal Reserve suspended the Reg D limitation of 6 withdrawals and transfers per month, however, individual banks can still impose their own limits.

Understanding the differences between the available financial products is the first step in effectively managing your cash.

Institutional money market funds

You could lose money by investing in the fund. Because the share price of the fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Retail money market funds

You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Government/Treasury money market funds

You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

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