Failing Banks and Your Money

With the failure of IndyMac Bank, many of you are probably wondering if your money is safe. This article will discuss the FDIC system and the general rules you need to know to preserve your hard earned money.

What is the FDIC?
Founded in 1933 in reaction to the bank runs of the Great Depression, the Federal Deposit Insurance Corporation (FDIC) is an independent federal agency that protects bank customers from the loss of deposits, up to a defined limit, if the bank or savings association fails. For members of credit unions (Navy Federal Credit Union or Pentagon Federal Credit Union), your accounts are insured by a similar agency called the National Credit Union Administration (NCUA), please check out next week's paper for more details.

Is bank failure common?
Not particularly, but it happens almost every year. In fact, in 2008 five banks have failed so far, in 2007 three banks failed, and in 2004 four banks failed. For a complete list of recent bank failures, go to www.fdic.gov/bank/individual/failed/banklist.html.

How do I know if my bank is insured under the FDIC?
There are three ways to check:

1. Look for the FDIC sign at your local bank, usually displayed in the window and at teller stations.
2. Call the FDIC at 1-877-275-3342.
3. Use the FDIC's "Bank Find" system at www.fdic.gov/deposit/index.html

How do I know how much of my money is protected at my FDIC insured bank?
If you are like me and have less than $100,000 in accounts (or less than $250,000 in retirement accounts) at any FDIC insured bank, read no further because you are covered up to $100,000 (or $250,000 for retirement accounts).

If at any one FDIC insured bank you have more than $100,000 in aggregate in your accounts (or $250,000 in retirement accounts), contact your bank and talk to their financial advisors. If this is not possible, the FDIC provides an Electronic Deposit Insurance Estimator (EDIE) on its website, at www4.fdic.gov/EDIE, which allows you to calculate insurance coverage of your accounts. You'll need to have the following information to use EDIE: your account balance, name of the owner(s), name of beneficiary(ies) for personal accounts and account balance, and business name and EIN for business accounts.

What are the insurance limitations under the FDIC?
There are five rules, only one of which is complicated, to keep in mind:

1. Banking and savings accounts are insured up to an <u>aggregated</u> maximum of $100,000 per bank. For example, if I owned one checking account with $100,000 and a savings account with $50,000 at USAA, then I would own an aggregate of $150,000 but would only be insured up to $100,000 if USAA failed.
2. Retirement accounts are insured up to an <u>aggregated</u> maximum of $250,000. For example, if I owned a Roth-IRA worth $150,000 and an IRA worth $200,000 at Chase, my account total at Chase would be $350,000 but only $250,000 would be covered by FDIC insurance if Chase failed.
3. Different banks are insured separately. If I owned a checking account at Bank of America with $100,000 and a Wachovia checking account with $100,000, then if both banks failed, the FDIC would insure my total of $200,000 since each is afforded $100,000 of protection at each separate institution.
4. Most investment products not held in a retirement account are uninsured by the FDIC. A short list of uninsured investment products include: annuities, mutual funds, stocks, bonds, government securities, municipal securities, and U.S. Treasury securities. One way to protect this kind of asset is to transfer them into a retirement account, talk to your financial advisor about this possibility.

Here's the complicated rule:

5. Different ownerships at the same bank (single accounts, certain retirement accounts, joint accounts, and revocable trust accounts) are considered separately for FDIC insurance calculations, even though the accounts are at the same institution.

- Single accounts are owned by one person and titled in their name. All of these type of accounts are aggregated and insured up to $100,000.
- Joint accounts which are owned by two or more people with each having equal rights to withdraw the money are insured up to $100,000 per person. For example, a married couple with a joint account type of account is insured up to $200,000, since each couple is afforded $100,000 of FDIC insurance.
- Retirement accounts that are owned by one person and titled in that persons name (IRA, RIRA, SEP IRA, Keogh plan, etc) are insured up to $250,000.
- Revocable trust accounts (Payable-on-death and living trust accounts) are insured up to $100,000.

Here's an example, Bob and Mary are married and have several accounts at Wachovia, they want to know what is covered by the FDIC.

Single Accounts

Account Title (Owner)	Deposit Type	Account Balance
Bob	Checking	$75,000
Bob	CD	$100,000
Mary	Savings	$100,000
Mary	Checking	$25,000

- Bob owns a total of $175,000 in single accounts. His FDIC protection is only $100,000 so he loses $75,000 if Wachovia fails.
- Mary owns a total of $125,000 in single accounts. Her FDIC protection is only $100,000 so she loses $25,000 if Wachovia fails.

Joint Accounts

Account Title (Owner)	Deposit Type	Account Balance
Bob and Mary	Savings	$100,000
Bob and Mary	CD	$150,000

- Bob and Mary own a combined $250,000 in joint accounts. The FDIC considers each to have an equal share of ½, so Bob and Mary each own $125,000 of the two accounts. Each is afforded a total protection $100,000 so they would each lose $25,000.

My bank has failed, now what?

According to the FDIC, insured deposits are usually available within a few business days. If you owned more at the bank than was insured, don't lose hope because you may eventually get some of that money back. Depending on the sale of the failed bank's assets, you may receive some of the uninsured funds from the FDIC, but it may take several years to sell the assets and disburse the money to you.