

October 2010 *MoneyMinute* – More Failures, More Coverage

If you've been reading the headlines about banks these days, you're probably worried. Last year, 140 banks shut their doors; as of the beginning of October this year, the number of bank closings is already up to 129 year-to-date. That's compared with three bank closings in the more normal economic times of 2007. At last count (June 30 of this year), 829 other banks were on the Federal Deposit Insurance Corp.'s "Problem Bank List," meaning they have weak capital positions that could lead to failure.

But if you have substantial assets on deposit at a lending institution, you do have some protection against losing money in a failure, and a way to check how much. The FDIC provides government-backed insurance for your deposits, and the new financial reform bill permanently raised this amount to \$250,000 per depositor.

As it happens, you probably have more protection than you think. The FDIC has created a web calculator called EDIE (<https://www.fdic.gov/edie/calculator.html>), which lets you input the name of your lending institution, the value of your deposit, personal, business or trust accounts, and it will tell you how much of your money at that institution is insured. A quick run through the site shows that if a husband and wife have a joint deposit account worth \$500,000, then the total amount is insured – \$250,000 each. Suppose one of them also has a business checking account as a sole proprietor? That, too, is insured up to \$250,000.

A revocable trust with beneficiaries has more generous, but trickier rules. The number of account owners and beneficiaries determines the amount of coverage. For example, consider a \$2 million revocable living trust where the trustees are a husband and wife, and their three children are the named beneficiaries.

To start with, each owner's coverage is determined separately. The husband's coverage is \$250,000 of FDIC insurance for each child. The wife's coverage is also \$250,000 for each child. That adds up to \$750,000 and \$750,000, for a total of \$1.5 million – leaving \$500,000 uninsured.

Notice that the husband and wife themselves are not counted – just the beneficiaries. This is not exactly an intuitive rule. Also note that a beneficiary can be either a named person, charity or other eligible non-profit. For details:

<http://www.fdic.gov/deposit/deposits/insured/ownership.html>.

Need more coverage than that? The FDIC provides unlimited coverage for non-interest bearing accounts. Given that most savings accounts pay next to nothing, giving up a tiny amount of interest for unlimited coverage is a good deal if you need to park lots of cash in a safe place for the short term.

Before you go to the website, however, you might first want to double check that your bank is an FDIC member. Most member banks have official FDIC signs prominently displayed at the teller windows, but you can also check online at the FDIC website's "bank find" feature:

http://www2.fdic.gov/idasp/main_bankfind.asp.

And finally, understand that stocks, bonds, mutual funds, annuities or other investments don't qualify for FDIC coverage. Only CDs, checking accounts and deposits are FDIC insured.

This is adapted from an article by Bob Veres, the publisher of Inside Information, an information service for financial planners. Bob is a journalist who covers the financial planning profession and a keen observer of the financial services industry for more than 20 years.