



FINANCIAL insight

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COMPANIES

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DAVIDSON INVESTMENT ADVISORS
DAVIDSON TRUST CO.

By **Jim Searles CFP®**

Senior Vice President, Director of Professional Development and Product Management

2008 has seen a significant increase in the rate of bank failures as compared with the past five years. A number of commentators have predicted that many more banks will become insolvent in the coming year, largely as a result of failed real estate and development loans. In light of this, we think it appropriate to discuss what happens to deposits if a bank fails.

In the event of a bank failure, the FDIC (Federal Deposit Insurance Corporation — an independent agency of the U.S. government) steps in. The FDIC's courses of action include arranging a buyout or merger with another very solvent bank, selling some or all deposit assets to another bank, or ultimately having FDIC insurance coverage take effect. In the event of a merger, depositors have no potential for losses and enjoy all the liquidity associated with their old deposits. Because of the insurance, no depositor has ever lost any of their insured money. This raises the issue of what deposits are insured.

In general, a depositor can have up to \$100,000 of principal and interest in one bank fully insured. Additionally, individual retirement accounts such as IRAs, Roth IRAs, SEP IRAs and certain other retirement account types are insured up to \$250,000. Deposits in multiple branches

What to know about your FDIC-Insured Accounts

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of one bank are all considered as deposits in the same bank. No additional coverage is gained. Deposits maintained in different categories of legal ownership are insured separately. For example, single accounts are insured separately from joint accounts. A depositor's accounts in each category are added together to determine that person's total coverage. In some cases, this can result in more than \$100,000 of insurance coverage per depositor per bank.

Single accounts are insured up to \$100,000 per depositor. This includes accounts held in one name only (not including retirement accounts), brokered deposits, sole proprietorships (a DBA account for example), and decedent's accounts.

Joint accounts, those with multiple owners holding equal rights, are insured up to \$100,000 per co-owner. The FDIC will assume all co-owners' shares are equal unless the deposit account records indicate otherwise. Neither the order of the names nor the listing of Social Security numbers attached to the account will affect that equality. All the co-owners must be people, not corporations or partnerships.

Both formal and informal revocable trusts are insured up to \$100,000 per beneficiary. Informal trusts include Payment on Death or Transfer on Death accounts. Formal trusts are written documents typically used in estate planning. They are generally identified as "living" or "family" trusts. However, the beneficiaries are limited to "qualified beneficiaries," meaning the owner's spouse, children, grandchildren, parents and siblings. Friends, nieces, nephews and organizations do not qualify for the expanded coverage. The rules become somewhat technical. Ultimately, the trust documents will dictate the total coverage. While these documents are under review by the FDIC, the funds may not be available to investors. Interest stops accruing as of the date the bank goes into FDIC receivership.

Irrevocable trusts have increased complexity. The ultimate coverage is dictated by the formal trust document.

Courses of Action

What was written and condensed in the foregoing paragraphs is further explored on the FDIC's excellent web site, under the agency's Guide to Deposit Insurance Coverage at <http://www.fdic.gov/deposit/index.html>.

For simplicity, peace of mind and rapid resolution of accounts in the event of bank failure, some steps might be in order.

1. Limit the size of your individual accounts in any one bank to \$100,000, including all interest earned on the accounts.
2. Limit IRA and other self-directed retirement accounts in one bank to \$250,000, including interest.
3. Joint accounts receive higher coverage, dependant on the owners and their share. However, delays in determining eligible coverage may occur if the accounts exceed \$100,000. Consider limiting these to \$100,000.
4. Trusts may receive significantly more coverage in certain instances. Importantly, if these accounts are greater than \$100,000, be prepared to present the trust documents to the FDIC and expect delays for processing.

In the event of failure, federal law requires the FDIC to make payment "as soon as possible." Historically, the FDIC pays within a few business days after a bank closing. Deposits purchased through a brokerage firm such as D.A. Davidson & Co. may take slightly longer because the firm must supply depository records to the FDIC. It has been our recent experience that this may add two to three days to the FDIC payment time. As stated before, joint accounts and trusts greater than \$100,000 may have increased delays.

FDIC insurance coverage is a wonderful benefit. But be prudent. Diversify between banks so you are not testing the limits of coverage.

The information contained in this Insight is intended only to provide highlights of FDIC insurance coverage. Readers are encouraged to visit the FDIC web site at www.fdic.org for more complete information concerning the terms and conditions relating to FDIC insurance.