

Is My Money Safe in a Community Bank?

by Jerry Felicelli and Laura Espeseth

Is my money safe in a community bank? How do I know that all my deposits are insured? If you have asked yourself these questions over the past few months, you are not alone.

Fifteen banks in the United States have closed as of October 10, 2008, and although current trends indicate additional failures, the nation's banking system is absolutely safe. The overwhelming majority of banks in the United States are strong and well capitalized. Banks today are required to maintain greater amounts of capital and are highly regulated and carefully monitored by numerous government agencies—the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision. The government also continues to take action to restore public confidence in the banking system by adopting plans to improve liquidity in the system by providing banks an additional source of capital, and by increasing the limits on the FDIC deposit insurance coverage.

In 1933, the U.S. government set up the FDIC system during a time of severe economic recession and financial turmoil to instill consumer confidence in our nation's banking system. In the FDIC's 75-year history, no insured depositor has ever lost a penny of insured deposits.

On October 3, 2008, the FDIC increased the insurance coverage on all interest-bearing deposit accounts from \$100,000 to \$250,000 until December 31, 2009. On

January 1, 2010, FDIC insurance for all deposit accounts—except for certain retirement accounts—will return to at least \$100,000 per depositor. Insurance coverage for certain retirement accounts, which include all IRA deposit accounts, will remain at \$250,000 per depositor. On October 14, 2008, all non-interest-bearing transaction deposit accounts at an FDIC-insured institution, including all personal and business checking deposit accounts that do not earn interest, are fully insured for the entire amount in the deposit account. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until December 31, 2009.

Sample of Insured Interest-Bearing Deposit Accounts

John single checking balance	\$250,000	\$250,000 insured single account
Lisa single checking balance	\$250,000	\$250,000 insured single account
John IRA	\$250,000	\$250,000 insured self-directed retirement
Lisa IRA	\$250,000	\$250,000 insured self-directed retirement
John and Lisa joint savings	\$500,000	\$500,000 insured joint account
Total insured	\$1,500,000	\$1,500,000

If your balances exceed \$250,000, it is easy to obtain additional FDIC insurance coverage by dividing your deposits into accounts at more than one bank or into different account types within the same bank. Accounts at different banks are insured separately, and there is no limit to the number of banks you may use. You will receive the maximum FDIC coverage at each institution.

Accounts in different ownership categories (such as trusts or joint accounts) can be considered separately for the insurance limit. By diversifying your account types within a single bank (e.g., single accounts, joint accounts, trust accounts, business accounts, and retirement accounts), you can significantly increase your insurance coverage. A married couple with only single checking accounts would be limited to \$250,000 each or a total of \$500,000. By using different ownership categories, their coverage can be increased today to as much as \$1,500,000 and can be further increased through the use of beneficiaries.

Another innovative way to maximize your FDIC insurance is through banks that participate in a Certificate of Deposit Account Registry Service (CDARS). Banks in the CDARS network divide your deposits into smaller increments that are deposited in participating network banks. This program allows banks to work together so that an individual depositor can have a single point of access at a primary bank, yet the deposit insurance coverage is increased as if he or she had deposited money at multiple banks.

Though we wish we could predict when this cycle will end, we cannot. However, the majority of community banks are well-positioned to attain solid growth and increasing profitability once this downturn has run its course.

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