FDIC PODCAST

Deposit Insurance Explained – Part One

BRIAN SULLIVAN: Welcome back to the FDIC Podcast where we talk about our banks and our banking system and why that matters to those who deposit money into our banks. I'm Brian Sullivan with the Federal Deposit Insurance Corporation and today, we talk about one of the core functions of the FDIC, something that's baked into the agency's very name— deposit insurance.

In the next two episodes, we're going to break down deposit insurance…what it is/what it *isn't*…what it covers/what it *doesn't*…and even confront some of the confusion and, dare I say, misrepresentations about FDIC deposit insurance. Well, there is no better person to talk about deposit insurance than Martin Becker, Chief of Deposit Insurance here at the FDIC. Hi Martin, how are you?

MARTIN BECKER: Good, How are you, Brian?

BRIAN SULLIVAN: Oh, great. Thank you. Hey, Martin, this whole notion of the U.S. government guaranteeing people's bank deposits dates back to the Great Depression, right? Give us just a bit of a history lesson about deposit insurance, how it came to be in this country, and how now it's really cemented into our financial system.

MARTIN BECKER: Sure. In fact, FDIC deposit insurance which started in January 1st of 1934, actually, there was a little bit of history before that. In fact, you can go all the way back to 1829 when the first state in the country attempted a deposit insurance system. And through the years, various states tried deposit insurance systems but they found them unworkable. And it really wasn't until the Great Depression that Congress decided it was time for a federal system.

In fact, another interesting fact was between 1886 and the Great Depression, Congress attempted to set up a federal deposit insurance system 150 different times. So it really took the Great Depression for the FDIC to be created. Beginning, as I say, on January 1st of 1934, with a limit starting at $2,500, which quickly by July one, when the permanent system began, was increased to $5,000.

BRIAN SULLIVAN: So, take us back to 1934 and we first started out with insuring people's bank deposits up to $2500. And here we are today, insuring people's bank deposits up to $250,000 and even more under certain circumstances. Walk us through these deposit insurance limits.

MARTIN BECKER: Sure. The limits have changed over the years as to say in 1934, we were at $5,000 for then about 16 years. And in 1950, the amount increased to $10,000. And it remained that way until 1966, when it was increased to $15,000. Three years later, in 1969, it was increased to $20,000. Five years later, in 1974, it was increased to $40,000. And in fact, $40,000 was the limit when I began in this industry. In early 1980, no sooner did I join the industry, when Congress raised the limit in 1980 to $100,000.

So we were at $100,000 for then the next 26 years, when Congress again looked at deposit insurance limits and for certain types of retirement accounts…your individual retirement accounts, your IRAs, as well as your self-directed pension funds, such as 401Ks…they raised the limit for *those* types of products from $100,000 to $250,000. And then shortly after that, on January 1st of 2010, Congress raised the limit to $250,000, which is where we are today, with the possibility of increases occurring based on inflation.

BRIAN SULLIVAN: Well, let's get into the sort of deposit products that are insured and what types of products are *not* insured by the FDIC?

MARTIN BECKER: Sure. The most important thing for consumers to recognize is that when working with an FDIC member bank and if you're looking for FDIC deposit insurance coverage, you have to place your funds in what is known as a "deposit product." And the most common types of deposit products are known as the DDAs or the Demand Deposit Accounts…

BRIAN SULLIVAN: ...these are like checking accounts and savings accounts?

MARTIN BECKER: A checking account, for example, yes. Another common type is a Money Market Deposit Account or an MMDA. Your time and savings deposits, which include Certificates of Deposits. And there's also official bank items, checks such as cashier's checks or money orders, interest checks, loan disbursement checks. So those are the most common types of deposit products that you will see at a bank.

BRIAN SULLIVAN: …And to be clear, are digital or crypto assets FDIC-insured?

MARTIN BECKER: No, crypto assets are *not* FDIC-insured. But your question gives me another opportunity to emphasize that anyone who has a question about deposit insurance coverage including what products are or are not insured, we have a ton of information to help. It's easy…just visit our website at www.fdic.gov and search for 'deposit insurance.'

BRIAN SULLIVAN: Good tip. Martin, is it possible for an individual to have *more* than $250,000 in any single FDIC-insured bank and still be fully insured? How does that work?

MARTIN BECKER: Well, it is. The FDIC has what we refer to as ownership categories or deposit rights and capacities. And so the first thing that we have to look at is *who* is the depositor? And the FDIC really has three broad categories that we look at depositors. One category is 'individuals.' Another broad category is 'business entities.' And then the third category is 'governmental entities.'

Now, for individuals, such as you and me, there is the opportunity to have *more* than $250,000. Probably the most common category that is available to individuals is the 'revocable trust' category. And under the revocable trust category, an owner of the funds can name one or more beneficiaries and potentially have more than $250,000. So for example, Brian, you let's say you have two children….there's a formula that we use in the case of you naming your two children in a "payable upon death account." It would be one owner, times two beneficiaries, times $250,000, which would mean that deposit would be insured for up to $500,000.

BRIAN SULLIVAN: Under what circumstances, Martin, does the FDIC pay deposit insurance claims to depositors?

MARTIN BECKER: So that's a great question, Brian. And it's a question that we get quite often through our toll-free number, 1-877-ASK-FDIC. And the answer to that question is that the FDIC *only* pays deposit insurance coverage in the event that an FDIC-member institution should fail. That is, the bank is placed into receivership and will no longer be operating.

BRIAN SULLIVAN: How long does it typically take for the FDIC to pay deposit insurance claims to depositors?

MARTIN BECKER: Well, it's pretty quick. The FDIC pays insurance typically within one, maybe two business days of a bank failure. It might take a bit longer if you have a unique situation. In other words, if you have placed your funds in an FDIC member bank using a broker, then it would be up to the broker who is the third party and has all the documentation about you to provide to the FDIC information about who you are and what your interest was in the deposit account so we can make a determination as to what the applicable amount of insurance coverage is, and that could take a bit longer.

BRIAN SULLIVAN: Martin, you get questions all the time, and have for years now, from just everyday folks reaching out and asking all kinds of questions about deposit insurance. What are some of the most frequently asked that you get?

MARTIN BECKER: Well, the question that you've hit upon as to what happens when the bank fails, how quickly will I receive my funds, is very common. But we often get questions asked by individuals who really want to know what are the different ways that that I might be insured. And as individuals, you can actually place funds in different ways in an FDIC insured bank and be insured separately. And again, this gets back to this concept of these ownership categories.

So, for example, you as an individual, if you have, say, $10,000, you can open an account and your name alone for $10,000 and it's insured separately from, say, if you open an account with another person. In what's called a joint account. And that would be insured separately for up to $250,000. If you had an Individual Retirement Account, that would be a third way that you could be insured for up to $250,000. And a fourth way we've already touched upon would be if you had a revocable trust such as a *Payable on Death Account*. Right. So, there as an individual, there are a number of different ways that you can place funds in an FDIC insured bank and be separately insured.

BRIAN SULLIVAN: If a depositor places their deposits, their funds, at different branches of the same bank, are they separately insured for up to $250,000? Or it's just that single institution that we're we're looking at?

MARTIN BECKER: That's a great question. And no, if you're looking at different branches of the same bank, then we would add together all the funds that you have in the same ownership category, place through different branches and meeting the insurance limit. That would also we get questions about if I walk into, say, the brick and mortar branch versus placing funds through the Internet with the same bank, all those funds would be added together in reaching the insurance limit or in calculating the insurance limit.

BRIAN SULLIVAN: Now, I track some of the FDIC's social media accounts, and I know that we get all kinds of commentary from people believing that FDIC deposit insurance applies in their situation. And there are a million situations out there, right? And you and your staff of field questions from people all the time about retirement planning and whether or not deposit insurance applies to their circumstances. How do you approach your job? Because people come at you from all different kinds of directions. Do you feel as though people out there really understand deposit insurance?

MARTIN BECKER: Well, that's a good question. And unfortunately, we do find some misunderstandings about when FDIC deposit insurance applies. And as we've touched upon, there's really only one situation that applies, and that's when an FDIC insured bank fails.

So, for example, if you suffer some kind of loss of funds, your funds are stolen, FDIC deposit insurance *only* applies in the event that the bank fails and you have a deposit account at the bank so that is one of the things that we like to emphasize to people.

BRIAN SULLIVAN: Well, maybe that's the way we simplify it enough for the purposes of this podcast, is that FDIC deposit insurance only applies in the event these days a rather rare event that an FDIC insured institution were to fail.

MARTIN BECKER: Yes.

BRIAN SULLIVAN: Okay. Well, Martin, thank you so much for joining us to talk about deposit insurance. In part two of our conversation will tackle broker deposits, something called pass-through deposit insurance. And some of the confusion, and as I mentioned before, perhaps even misrepresentations, circulating out there about deposit insurance. So we look forward to that.

MARTIN BECKER: And Brian, I would just like to close by saying the FDIC is very committed to answering consumers questions and we have a team of really deposit insurance experts that is absolutely happy to answer any deposit insurance coverage question that you might have.

And it's as simple as calling us during normal business hours. It's not an 800 number. It's an 877 number. It's 1- 877-ASK-FDIC or 1-877-275-3342. And as I say, we would be happy to answer any question that you might have about your FDIC deposit insurance coverage.

Martin Becker, thank you so much.

Thank you, Brian.