



FDIC Seminar On Revocable Trust Accounts For Bankers

January 2012

1

FDIC 

Outline

Part 1 – Overview of Ownership Categories

Part 2 – Revocable Trust Accounts

Part 3 – Deposit Insurance Coverage Resources

Seminar on Deposit Insurance Coverage

PART 1

OVERVIEW OF OWNERSHIP CATEGORIES

Ownership Categories

An “ownership category,” also referred to as “right and capacity” in the deposit insurance regulations, is defined by either statute or by regulation and provides for separate FDIC deposit insurance coverage

If a depositor can meet the rules for a specific category, then their deposits will be entitled to both of the following:

- 1) Up to the SMDIA in deposit insurance coverage that is provided for under the ownership category, and
- 2) Separate coverage from funds that may be deposited under a different ownership category

Ownership Categories

Owners = Individuals

**CATEGORY 1
SINGLE
ACCOUNTS**

**CATEGORY 2
JOINT
ACCOUNTS**

**CATEGORY 3
REVOCABLE
TRUST
ACCOUNTS**

**CATEGORY 4
IRREVOCABLE
TRUST
ACCOUNTS**

**CATEGORY 5
CERTAIN
RETIREMENT
ACCOUNTS**

**CATEGORY 6
EMPLOYEE
BENEFIT PLAN
ACCOUNTS**

Owner = Business/Organizations

**CATEGORY 7
CORPORATION
PARTNERSHIP
UNINCORPORATED
ASSOCIATION ACCOUNTS**

Owners = Government Entities or Political Subdivisions

**CATEGORY 8
GOVERNMENT
ACCOUNTS**

**CATEGORY 9
PRINCIPAL & INTEREST
FUNDS IN
MORTGAGE SERVICING
ACCOUNTS**

**CATEGORY 10
NONINTEREST-BEARING
TRANSACTION ACCOUNTS**

Seminar on Deposit Insurance Coverage

PART 2

REVOCABLE TRUST ACCOUNTS

Category 3 – Revocable Trust Accounts

Revocable Trust Accounts - 12 C.F.R. § 330.10

What is a revocable trust account?

- A deposit account that indicates an intention that the funds will belong to one or more named beneficiaries upon the last owner's death

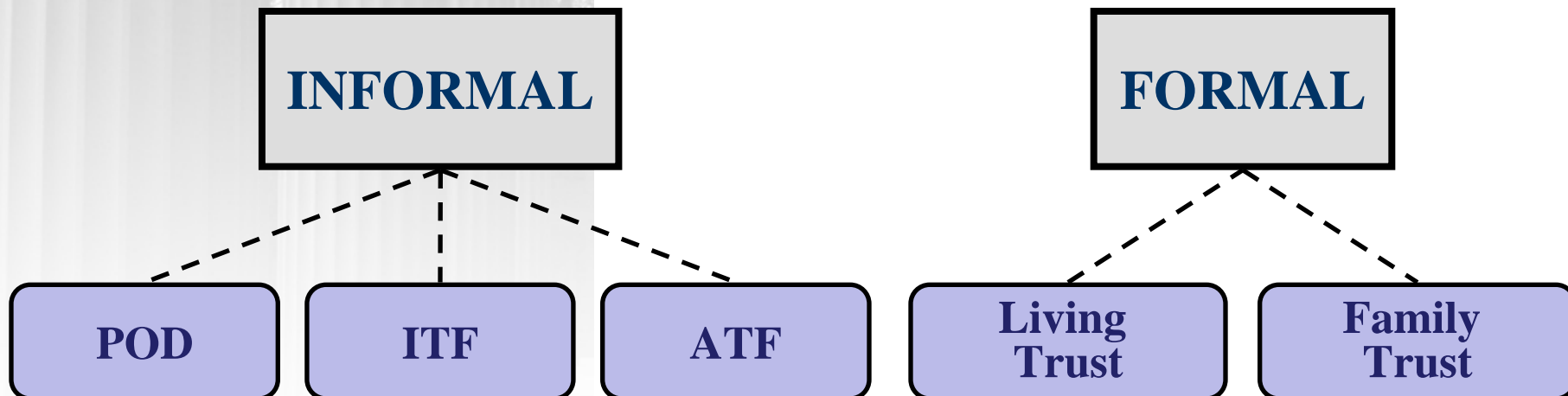
What does revocable mean?

- The owner retains the right to change beneficiaries and allocations or to terminate the trust

What are the types of revocable trusts?

- Informal revocable trusts
- Formal revocable trusts

Category 3 – Revocable Trust Account Types



Payable-on-Death (“POD”) or other similar terms such as In-Trust-For (“ITF”) or As-Trustee-For (“ATF”) must be in the account title

Account must be titled in the name of the formal trust

Category 3 – Revocable Trust Requirements

Updated on October 19, 2009!

12 C.F.R. § 330.10(b) provides that trust relationship must exist in the account title

- Commonly accepted terms such as “payable-on-death”, “in trust for” and “as trustee for” must appear in the account title
 - For purposes of this rule, “title” includes the electronic deposit account records of the bank
 - The FDIC will recognize the account as a revocable trust account provided that the bank’s electronic deposit account records identify the deposit as a POD account. For instance, this designation can be made using a code in the bank’s electronic deposit account records

Category 3 – Revocable Trust Requirements

Who is a beneficiary?

- The owner and beneficiary **no longer** must meet the kinship requirement that each beneficiary must be related to the owner from one of the following five groups: parent, sibling, spouse, child, or grandchild

Who or what can be a beneficiary?

- The beneficiary must be an eligible beneficiary as defined below:
 - A natural person (living)
 - A charity (must be valid under IRS rules)
 - A non-profit organization (must be valid under IRS rules)

Category 3 – Revocable Trust Requirements

- **Who or what is or not allowed as a beneficiary?**

Any object or entity that does not meet the eligibility requirements, such as a deceased person, a fictional person or a pet would be considered an invalid beneficiary. Any beneficiary that is not legally entitled to receive funds upon the owner's death will not be considered in determining deposit insurance coverage

- **What about deposits opened “POD to the Trust?”**

If a deposit account is titled, as an example, “**John Smith POD to the John Smith Revocable Trust**” the FDIC will treat the deposit as an account in the name of the depositor's revocable trust (i.e., “the John Smith Revocable Trust”)

Category 3 – Revocable Trust Requirements

- Examples where pass-through deposit insurance coverage would apply because there is mutuality between the owner and POD designation:
 - A POD A's Revocable Trust
 - B POD B's Revocable Trust
 - A and B POD A and B's Revocable trust
- Examples where pass-through deposit insurance coverage would NOT apply because there is no mutuality between the owner and POD designation:
 - A POD B's Revocable Trust (Single Ownership Account)
 - B POD A's Revocable Trust (Single Ownership Account)

If an invalid beneficiary is named, the account would revert to a single account and would be insured for up to \$250,000 assuming the owner does not have any other single ownership accounts at the same bank

Category 3 – Revocable Trust Coverage

Coverage depends on the number of beneficiaries named by an owner and the amount of the deposit

- 1. The owner names five or fewer unique eligible beneficiaries and the total deposit(s) allocated to all beneficiaries combined is \$1,250,000 or less, then the insurance coverage is:**
 - **Up to \$250,000 times the number of unique eligible beneficiaries named by the owner.** This applies to the combined interests for all beneficiaries the owner has named in all (both informal and formal) revocable trust deposits established in each bank
 - **The result is the same as above even if the owner has allocated different or unequal percentages or amounts to multiple beneficiaries.** To calculate the deposit insurance coverage, multiply \$250,000 times the number of owners times the number of unique eligible beneficiaries

Category 3 – Revocable Trust Coverage

Coverage depends on the number of beneficiaries named by an owner and the amount of the deposit

2. The owner names six or more unique eligible beneficiaries and the deposit is greater than \$1,250,000:

- If the owner is attempting to insure more than \$1,250,000 with **six or more unique eligible beneficiaries where the allocation to each and every beneficiary is equal**, the deposit insurance coverage is **\$250,000 times the number of unique eligible beneficiaries**
- If the owner is attempting to insure more than \$1,250,000 with **six or more unique eligible beneficiaries with unequal percentages or dollar amount allocations to the beneficiaries**, the deposit insurance coverage is the greater of \$1,250,000 or the total of specific allocations to all named beneficiaries, up to \$250,000 per beneficiary. Therefore, if the total deposit is greater than \$1,250,000 and the allocation to a beneficiary exceeds \$250,000, the excess above \$250,000 will be uninsured

Category 3 – Revocable Trust Coverage

Eight questions that must be answered before you can determine FDIC insurance coverage for a revocable trust account are:

1. Who are the owners of the trust account?
2. Who are the primary unique beneficiaries upon the death of the owners?
3. Are the primary unique beneficiaries “eligible” ?
4. Are the primary unique beneficiaries identified in the bank’s deposit account records (for informal trusts) or in the trust agreement (for formal trusts) alive at the time a bank fails?
5. What is the dollar amount or percentage interest each owner has allocated to each primary unique beneficiary?
6. Does the owner(s) have any other revocable trust accounts in the same bank?
7. Are the revocable trust accounts properly titled?
8. Are any of the deposits held in noninterest-bearing transaction accounts?

Category 3 – Revocable Trust Calculation

1. Who are the owners of the trust account?

- In informal trust accounts, the depositor is the owner of the account. In formal revocable trusts, the owner is commonly referred to as a **Grantor, Trustor or Settlor. Trustee and successor trustee designations** are irrelevant in the determination of deposit insurance coverage

2. Who are the primary unique beneficiaries upon the death of the owners?

- At the time a bank fails, the beneficiary must be entitled to his or her interest in the revocable trust assets upon the grantor's death and that ownership interest does not depend upon the death of another trust beneficiary. Contingent beneficiaries do not count. Life estate beneficiary interests are allowed up to \$250,000 in deposit insurance coverage

Category 3 – Revocable Trust Calculation

3. Are the primary unique beneficiaries “eligible”?

- Eligible beneficiaries are natural persons, charities or non-profit organizations recognized as such by the Internal Revenue Service. The FDIC **no longer** looks to see if a beneficiary is “qualifying” - that is a parent, sibling, spouse, child or grandchild of the grantor. If the named beneficiary cannot under state law receive funds when the owner dies, the beneficiary’s interest is considered invalid

4. Are the primary unique beneficiaries identified in the bank’s deposit account records (for informal trusts) or in the trust agreement (for formal trusts) alive at the time a bank fails?

- The death of either an owner(s) or beneficiary(ies) can impact the calculation of deposit insurance coverage
- Please remember there is no six-month grace period for the death of a beneficiary for revocable trust deposits. If there is no substitute beneficiary named when a primary beneficiary dies, the amount of deposit insurance coverage may decrease for this deposit

Category 3 – Revocable Trust Calculation

5. What is the dollar amount or percentage interest each owner has allocated to each primary beneficiary?

- Assuming the owner is attempting to insure \$1,250,000 or less with five or fewer unique eligible beneficiaries, the coverage is calculated as follows for each owner naming:

1 beneficiary = up to \$ 250,000 insurance coverage

2 beneficiaries = up to \$ 500,000 insurance coverage

3 beneficiaries = up to \$ 750,000 insurance coverage

4 beneficiaries = up to \$1,000,000 insurance coverage

5 beneficiaries = up to \$1,250,000 insurance coverage

**Note: If there are two owners, the deposit insurance coverage amount is calculated using:
(# of owners) times (# of beneficiaries) times \$250,000**

Category 3 – Revocable Trust Calculation

5. (Continued)

- Assuming the owner is attempting to insure more than \$1,250,000 with six or more unique eligible beneficiaries with EQUAL interests, the coverage is calculated as follows for each owner naming:

6 beneficiaries	= up to \$1,500,000 insurance coverage
7 beneficiaries	= up to \$1,750,000 insurance coverage
8 beneficiaries	= up to \$2,000,000 insurance coverage
9 beneficiaries	= up to \$2,250,000 insurance coverage
10+	= add up to \$250,000 insurance coverage for each additional beneficiary
- Assuming the owner is attempting to insure more than \$1,250,000 with six or more unique eligible beneficiaries with UNEQUAL beneficial interests, the FDIC will compute the deposit insurance coverage based on the greater of either the specific allocations provided for under the trust agreement or the minimum amount of at least \$1,250,000

Category 3 – Revocable Trust Calculation

- 6. Does the owner(s) have any other revocable trust accounts in the same bank?**
 - In calculating deposit insurance coverage for revocable trusts, the FDIC combines the interests of all beneficiaries the owner has named in all formal and informal revocable trust accounts at the same bank
- 7. Are the revocable trust accounts properly titled?**
 - The account title at the bank must indicate that the account is held pursuant to a trust relationship. This rule can be met by using the terms living trust, family trust, or any similar language, including simply having the word “trust” in the account title. For informal trusts, descriptive language such as POD or ITF must be in the account title
- 8. Are any of the deposits held in noninterest-bearing transaction accounts?**
 - Deposits held in noninterest-bearing transaction accounts have unlimited coverage through December 31, 2012. In addition, any unique beneficiaries named on a noninterest-bearing transaction account will be considered in the total number of beneficiaries an owner has at a bank

Category 3 – Revocable Trust Calculation

Example 1:

Facts: John is the owner of a living trust. What is the maximum this trust can be insured for with six beneficiaries named each receiving an equal interest?

Beneficiary 1 = 1/6 to Sally

Beneficiary 2 = 1/6 to James

Beneficiary 3 = 1/6 to Amy

Beneficiary 4 = 1/6 to ABC Charity (IRS qualified)

Beneficiary 5 = 1/6 to John's College (IRS qualified)

Beneficiary 6 = 1/6 to XYZ Non-profit (IRS qualified)

What is the maximum coverage?

Coverage is calculated as follows:

1 Owner X \$250,000 X 6 Eligible Beneficiaries = \$1.5 million

Category 3 – Revocable Trust Calculation

Example 2:

Facts: John is the owner of a living trust that provides the following when he dies:

Beneficiary 1	= \$ 350,000	to Sally
Beneficiary 2	= \$ 50,000	to James
Beneficiary 3	= \$ 200,000	to Amy
Beneficiary 4	= \$ 300,000	to ABC qualifying charity
Beneficiary 5	= \$ 300,000	to XYZ qualifying non-profit

Total	= \$ 1,200,000	

Can John open this deposit at your bank and be fully insured for the entire amount of \$1,200,000?

YES !

Since there is one owner with five or fewer unique eligible beneficiaries, we can calculate the coverage as follows:

**One Owner (1) Times five Beneficiaries (5) Times \$250,000 =
Total Coverage up to \$1,250,000**

**Because the total deposit of \$1,200,000 is less than \$1,250,000
the deposit is fully insured**

Category 3 – Revocable Trust Calculation

Coverage Calculations for Six or More Beneficiaries with Unequal Allocations

If the owner is attempting to insure more than \$1,250,000 and has named **six or more unique eligible** beneficiaries under one or more revocable trust deposits, but has **unequal percentages or dollar amount allocations to the beneficiaries, then no specific allocation to any beneficiary can exceed \$250,000**

If any beneficiary's allocation does exceed \$250,000, then the default total insurable amount (with no uninsured funds) is a maximum deposit of \$1,250,000

Category 3 – Revocable Trust Calculation

Coverage Calculation Steps - Six or More Beneficiaries with Unequal Allocations

Step 1 - Under the trust agreement, determine what is the largest percentage allocated to any one beneficiary. If dollar allocations are used instead of percentages, then simply take the largest dollar allocation and divide that by the total amount for all allocations to convert to the largest percentage allocation

Step 2 - Take the SMDIA (\$250,000) and **divide** this amount by the percentage allocation from Step 1

Step 3 - Look at the result. If the result from Step 2 is less than or equal to \$1,250,000 then the maximum insurable amount is exactly \$1,250,000. If the result is greater than \$1,250,000, then this amount represents the maximum amount that can be deposited using this trust agreement with no uninsured funds

Category 3 – Revocable Trust Calculation

Breakeven Calculation

If one or more beneficiaries have an allocated interest **at or ABOVE 20%**, then we know that by dividing the SMDIA (\$250,000) by the highest percentage allocation attributable to a beneficiary under the trust agreement, the result will always be \$1,250,000 or less and therefore we can simply use the default amount of \$1,250,000 as the maximum insurable amount with no uninsured funds

If all the beneficiaries have an allocated interest **at or BELOW 20%**, then we know that by dividing the SMDIA (\$250,000) by the highest percentage allocation attributable to a beneficiary under the trust agreement, the result of the formula will be an amount of deposit insurance coverage greater than \$1,250,000

Category 3 – Revocable Trust Calculation

Table below presents a sample of the deposit insurance coverage amount available using different percentages

Beneficiary with Largest Percentage/Share	Break Even Calculation	Coverage Amount
19%	$\$250,000 / .19$	\$1,315,789.47
20%	$\\$250,000 / .20$	\$1,250,000.00
21%	$\$250,000 / .21$	\$1,190,476.19*

*Defaults to \$1,250,000

Category 3 – Revocable Trust Calculation

Example 3:

Facts: John's trust provides the following allocations when he dies:

Beneficiary 1	= \$ 500,000	to Sally
Beneficiary 2	= \$ 150,000	to James
Beneficiary 3	= \$ 250,000	to Amy
Beneficiary 4	= \$ 225,000	to ABC qualifying charity
Beneficiary 5	= \$ 175,000	to XYZ qualifying non-profit
Beneficiary 6	= \$ 200,000	to JKL qualifying non-profit
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Total	= \$ 1,500,000	

**Can John open this deposit at your bank and
be fully insured for the entire amount of \$1,500,000?**

No!

If \$1,500,000 is deposited, then \$1,250,000 is insured and \$250,000 is uninsured because Sally's allocation of \$500,000 creates \$250,000 of uninsured funds

Category 3 – Revocable Trust Calculation

Example 3 (continued):

What is the maximum amount that can be deposited using this trust with 100% of the deposit fully insured?

Step 1: Take the largest amount to be received by a beneficiary and convert this to a percentage

$$\$500,000/\$1,500,000 = 33.33\% \text{ (rounded)}$$

Step 2: Take the SMDIA of \$250,000 and divide this by our highest percentage allocated from Step 1

$$\$250,000 \text{ is then divided by } 33.33\% = \$750,000$$

Step 3: The amount of deposit insurance coverage is the greater of either the result from Step 2 or \$1,250,000. Since the calculation of \$750,000 is less than \$1,250,000, then \$1,250,000 represents the maximum amount that can be deposited with no uninsured funds

Category 3 – Revocable Trust Calculation

Example 4:

Facts: John's trust provides the following allocations when he dies:

Beneficiary 1 = \$	400,000 to Sally
Beneficiary 2 = \$	150,000 to James
Beneficiary 3 = \$	250,000 to Amy
Beneficiary 4 = \$	225,000 to ABC qualifying charity
Beneficiary 5 = \$	275,000 to XYZ qualifying non-profit
Beneficiary 6 = \$	200,000 to JKL qualifying non-profit
Beneficiary 7 = \$	150,000 to Joe
Beneficiary 8 = \$	150,000 to Chris
Beneficiary 9 = \$	175,000 to Kate
Beneficiary 10 = \$	125,000 to Kathy

Total	= \$ 2,100,000

**Can John open this deposit at your bank
and be fully insured for \$2,100,000?**

NO!

Category 3 – Revocable Trust Calculation

Example 4 (continued):

If \$2,100,000 is deposited, then \$1,925,000 is insured and \$175,000 is uninsured (\$150,000 to Sally and \$25,000 to XYZ)

Beneficiaries	Trust Allocation	Insured Amount	Uninsured Amount
Beneficiary 1	\$ 400,000	\$ 250,000	\$ 150,000
Beneficiary 2	150,000	150,000	0
Beneficiary 3	250,000	250,000	0
Beneficiary 4	225,000	225,000	0
Beneficiary 5	275,000	250,000	25,000
Beneficiary 6	200,000	200,000	0
Beneficiary 7	150,000	150,000	0
Beneficiary 8	150,000	150,000	0
Beneficiary 9	175,000	175,000	0
Beneficiary 10	125,000	125,000	0
Total	\$ 2,100,000	\$ 1,925,000	\$ 175,000

Category 3 – Revocable Trust Calculation

Example 4 (continued):

Is \$1,925,000 the maximum insurable amount with 100% of the funds fully insured?

NO!

The maximum insurable amount is **not** calculated by simply subtracting the excess amount above \$250,000 from Beneficiary 1 and Beneficiary 5, as this would change the Grantor's intended percentage allocation for each beneficiary

Category 3 – Revocable Trust Calculation

Example 4 (continued):

Grantor's intended allocation is determined by dividing the specific allocation to each beneficiary into the total allocation under the trust:

Beneficiaries	Specific Allocation	Total Allocation	Percentage Allocation
Beneficiary 1	\$ 400,000	\$ 2,100,000	19.05 %
Beneficiary 2	150,000	2,100,000	7.14 %
Beneficiary 3	250,000	2,100,000	11.91 %
Beneficiary 4	225,000	2,100,000	10.72 %
Beneficiary 5	275,000	2,100,000	13.10 %
Beneficiary 6	200,000	2,100,000	9.52 %
Beneficiary 7	150,000	2,100,000	7.14 %
Beneficiary 8	150,000	2,100,000	7.14 %
Beneficiary 9	175,000	2,100,000	8.33 %
Beneficiary 10	125,000	2,100,000	5.95 %

Category 3 – Revocable Trust Calculation

Example 4 (continued):

What is the maximum amount that can be deposited under this trust with 100% of the funds fully insured?

Category 3 – Revocable Trust Calculation

Example 4 (continued):

Step 1: Take the largest amount to be received by a beneficiary and convert this to a percentage. $\$400,000/\$2,100,000 = 19.05\%$ (rounded)

Beneficiaries	Specific Allocation	Total Allocation	Percentage Allocation (rounded)
Beneficiary 1	\$ 400,000	\$ 2,100,000	19.05 %
Beneficiary 2	150,000	2,100,000	7.14 %
Beneficiary 3	250,000	2,100,000	11.91 %
Beneficiary 4	225,000	2,100,000	10.72 %
Beneficiary 5	275,000	2,100,000	13.10 %
Beneficiary 6	200,000	2,100,000	9.52 %
Beneficiary 7	150,000	2,100,000	7.14 %
Beneficiary 8	150,000	2,100,000	7.14 %
Beneficiary 9	175,000	2,100,000	8.33 %
Beneficiary 10	125,000	2,100,000	5.95 %

Category 3 – Revocable Trust Calculation

Example 4 (continued):

Step 2: Take the SMDIA of \$250,000 and divide this by our highest percentage allocated from Step 1

\$250,000 is then divided by 19.05% = \$1,312,336

This amount, \$1,312,336, represents the total amount that would be insured in keeping with the grantor's intended allocation

Step 3: The amount of deposit insurance coverage is the greater of either the result from Step 2 or \$1,250,000

Since the calculation of \$1,312,336 is **greater** than \$1,250,000, then \$1,312,336 represents the maximum amount that can be deposited with no uninsured funds

Category 3 – Revocable Trust Calculation

Example 4 (continued): Proof that the deposit of \$1,312,336 is the total insured amount for all beneficiaries combined

Trust Beneficiaries	Percentage Interest Allocation (rounded)	Dollar Allocation
Beneficiary 1	19.05 %	\$ 250,000
Beneficiary 2	7.14 %	93,701
Beneficiary 3	11.91 %	156,299
Beneficiary 4	10.72 %	140,682
Beneficiary 5	13.10 %	171,916
Beneficiary 6	9.52 %	124,934
Beneficiary 7	7.14 %	93,701
Beneficiary 8	7.14 %	93,701
Beneficiary 9	8.33 %	109,318
Beneficiary 10	5.95 %	78,084
Total	100 %	\$ 1,312,336

Deposit Insurance Seminar

PART 3

DEPOSIT INSURANCE COVERAGE RESOURCES

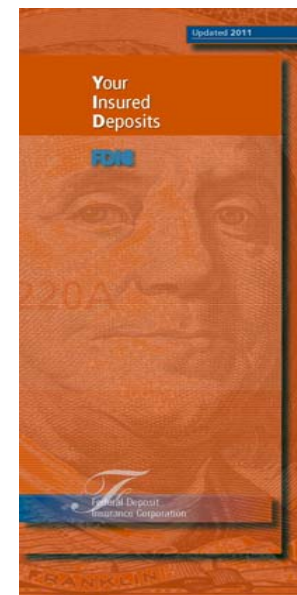
FDIC Resources

FDIC Deposit Insurance Coverage Website
www.fdic.gov/deposit/deposits

Calculator:
Electronic Deposit Insurance Estimator

Brochures:
Deposit Insurance Summary
Your Insured Deposits

Videos:
Overview on Deposit Insurance Coverage



FDIC Deposit Insurance Product Catalogue
<https://vcart.velocitypayment.com/fdic>

FDIC Resources

- **Call the FDIC toll-free 1-877-ASK-FDIC
(1-877-275-3342)**

Hearing impaired: 1-800-925-4618

**Thank You for Participating
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