Federal Deposit Insurance Corporation

Comprehensive Seminar On Deposit Insurance Coverage For Bankers

2013

FDIC

Outline

PART 1

GENERAL PRINCIPLES

General Principles

Basic Insurance Coverage

- The Standard Maximum Deposit Insurance Amount ("SMDIA") is $250,000.

  Under 12 C.F.R. § 330.1(n), adjusted pursuant to subparagraph (F) of section 11(a)(1) of the FDI Act (12 U.S.C. 1821(a)(1)(F)).

- Coverage includes principal and interest earned up to the date of a bank's closing.

Important! The Dodd-Frank Act permanently increased the SMDIA to $250,000.

General Principles

Basic Insurance Coverage

- Coverage includes principal and interest earned up to the SMDIA.

Jane Smith	Balance
Principal Amount	$ 248,000
Accrued Interest	3,000
Total	**$ 251,000**
Insured	**$ 250,000**
Uninsured	**$ 1,000**

General Principles

FDIC Insures Only Bank Deposits
Checking Accounts
NOW Accounts
Savings Accounts
Money Market Deposit Accounts ("MMDAs")
Certificates of Deposit

FDIC Does Not Insure Non-deposit Products
Stocks, Bonds, Municipal Bonds and Other Securities
Mutual Funds (money market mutual funds and stock, bond, or other security mutual funds)
Annuities
Insurance Products
Safe Deposit Box Contents
U.S. Treasury Bills, Bonds or Notes

General Principles

Coverage Per Depositor

- Deposit Insurance Coverage is calculated per depositor (owner of the deposit account).

- A depositor can be the following:
  - a person
  - a business/organization
  - a government entity

- A depositor does not have to be a citizen or resident of the United States to be eligible for deposit insurance coverage.

General Principles

Death of an Account Owner

The death of an account owner will in most cases reduce the amount of deposit insurance coverage.

- If an account owner dies, for the purpose of calculating deposit insurance coverage, the FDIC provides a six-month grace period during which the account will be insured as if the account owner had not died.
- After the six-month grace period, the funds will be insured according to the ownership category in which the deposits are held.

General Principles

Coverage Per Bank

Deposit insurance coverage is also calculated per bank:

- Deposits placed in the branch offices of a bank with the same charter are added together.
- Deposits placed in separately chartered banks are separately insured.
- Deposits in separate branches of a bank are not separately insured even if the branches are in different states.

General Principles

Deposit Account Records

- In the event of a bank failure, the FDIC relies on bank deposit account records to determine ownership.
- Examples of bank deposit account records may include:
  - Account ledgers
  - Signature cards
  - Certificates of Deposit
  - Corporate resolutions in possession of the IDI authorizing the accounts
  - Other books and records of the bank including computer records that relate to the bank's deposit-taking function

General Principles

Coverage Per Ownership Category

Deposit insurance coverage is also calculated per ownership category.

- Deposits that a person or entity maintains in different ownership categories at one bank are separately insured up to the insurance limit.
- Deposits that a person or entity maintains in the same ownership right and capacity at the same bank are added together and insured up to at least $250,000.

PART 2

OWNERSHIP CATEGORIES

Ownership Categories

Questions every bank employee must ask and answer to calculate FDIC deposit insurance coverage:

1) Who owns the funds?
2) What ownership category is the depositor eligible to use or attempting to use?
3) Does the depositor meet the requirements of that category?

Ownership Categories

Who Owns the Funds?

- Calculating the amount of FDIC deposit insurance coverage begins with determining who owns the funds.

- FDIC deposit insurance is based on the ownership of the deposit funds—also referred to as a "right and capacity" or an ownership category.

IMPORTANT! Deposit insurance coverage is NOT calculated on a per account basis; it is based on the owner and ownership category in which the funds are held.

Ownership Categories

An "ownership category," also referred to as a "right and capacity" in the deposit insurance regulations, is defined by either a federal statute or by an FDIC 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 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

Owners = 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

- TEMPORARY -
CATEGORY 10
NONINTEREST-BEARING
TRANSACTION ACCOUNTS

Expired 12/31/2012

PART 3

OWNERSHIP CATEGORY REQUIREMENTS

Ownership Category Requirements

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

Hypothetical Signature Card

SIGNATURE CARD FOR DEPOSIT ACCOUNTS

Account Title

Account Number

TIN of First Name on Account or Legal Entity

Signature	Title
Printed Name	Date
Signature	Title
Printed Name	Date

ACCOUNT DESCRIPTION

- ☐ Personal Account
- ☐ Non-Personal Account

- ☐ Individual / Single
- ☐ Estate
- ☐ Individual Unincorporated (e.g. DBA)
- ☐ Joint With Survivorship
- ☐ Joint No Survivorship
- ☐ POD / ITF / Totten
- ☐ Revocable Trust
- ☐ Irrevocable Trust
- ☐ Corporation / Partnership / LLC
- ☐ Non-Profit
- ☐ Government

- ☐ Fiduciary

ACCOUNT BENEFICIARIES

Name of Beneficiary

Name of Beneficiary

Name of Beneficiary

POWER OF ATTORNEY (POA)

Signature of Agent

Printed Name of Agent

Signature of Account Owner

Date

SELF DIRECTED RETIREMENT ACCOUNT ENROLLMENT

ACCOUNT TYPE

☐ Traditional IRA	☐ Inherited IRA
☐ Roth IRA	☐ Inherited Roth IRA
☐ SIMPLE IRA	☐ Rollover IRA
☐ SEP IRA	☐ Keogh

Name	SSN	
Address	DOB / /	
	Home Phone	
	Business Phone	
City	State	Zip

BENEFICIARIES

Name and Address	Relationship	DOB	SSN	Share
1				
2				
3				
4				

CUSTOMER AGREEMENT

Signature	Date

CUSTODIAN / TRUSTEE ACCEPTANCE

Signature	Date

Hypothetical Signature Card

Ownership Categories

(Cat. 1) Single Accounts
- Individual / Single
- Estate
- Individual Unincorporated (e.g. DBA)

(Cat. 2) Joint Accounts
- Joint With Survivorship (JTWROS)
- Joint No Survivorship (TIC)

(Cat. 3) Revocable Trust Accounts
- POD / ITF / Totten (Informal)
- Revocable Trust (Formal)

(Cat. 4) Irrevocable Trust Accounts
- Irrevocable Trust

(Cat. 7) Corporation, Partnership, Unincorporated Association Accounts
- Corporation / Partnership / LLC
- Non-Profit

(Cat. 8) Public Unit/Government Accounts
- Government

NOT AN OWNERSHIP CATEGORY - Insurance coverage "passes through" the fiduciary to the actual owner, based on how the funds are held
- Fiduciary (Broker, IOLTA, UTMA, etc.)

(Cat. 5) Certain Retirement Accounts*
- Traditional IRA
- Roth IRA
- SIMPLE IRA
- SEP IRA
- Inherited IRA
- Inherited Roth IRA
- Rollover IRA
- Keogh

*Note: Self-directed defined contribution plans are included under Category 5

Category 1 – Single Account Category

Single Accounts - 12 C.F.R. § 330.6

Deposit must be owned by a **"natural person."**

- Sole Proprietorship Deposits:
  - Funds owned by a **Sole Proprietorship or DBA** are insured in this category (not in **Category 7 – Business/Organization Accounts**).
  - If a sole proprietorship or DBA is co-owned and the owners have equal rights to withdraw from the account, the account will likely be insured under **Category 2 – Joint Accounts.**
- Decedent Deposits or Estate Accounts:
  - Accounts established for a **deceased person** (i.e. Decedent's or Estate Accounts) are insured in this category (not **Category 3 - Revocable Trust Accounts**).

Category 1 – Single Account Coverage

A depositor is insured for up to $250,000 for all **Category 1 – Single Account** deposits.

- If a depositor, designates an account as *"payable on death" and names beneficiaries*, the deposit will be analyzed as a **Category 3 – Revocable Trust** account.
- **Category 1 – Single Account** is the default category for depositors who do not meet the requirements of another category.

Category 1 – Single Account – Jane Smith

Deposit Types	Balance
Savings	$ 125,000
CD 6 month maturity	100,000
CD 2 year maturity	50,000
MMDA	50,000
Total	**$ 325,000**

Insurance Coverage	**$ 250,000**

Uninsured Amount	**$ 75,000**

Example:
Husband and Wife Maximizing Coverage at ABC Bank

Part 3

	Category 1 Single Accounts	Total Coverage
John	$250,000 (#1)	$250,000
Mary	$250,000 (#2)	$250,000
Total	**$500,000**	**$500, 000**

Note: This example is solely to show coverage under different deposit insurance categories and is not intended to provide estate planning advice.

Category 2 – Joint Account Requirements

Joint Accounts - 12 C.F.R. § 330.9

Deposits owned by two or more natural persons.

Requirements:

- Each co-owner must be a natural person
  - Corporations, Partnerships, Associations, Trusts and Estates are not eligible for Joint Account Coverage.
- Each co-owner must sign the signature card (CD and broker exception).
- Each co-owner must have same withdrawal rights as the other co-owner(s).

Note: FDIC assumes ownership of a joint account is equal unless otherwise stated in the bank records.

Category 2 – Joint Account Coverage

If all the requirements are met, then the amount of deposit insurance coverage is up to $250,000 for each owner of all Category 2 – Joint Account deposits.

Remember!

If a depositor establishes multiple joint accounts, the owner's shares in all joint accounts are added together and insured up to $250,000.

Category 2 – Joint Account Coverage

- Deposit insurance is **not** increased by:
  1) rearranging the names listed on multiple joint accounts,
  2) substituting "and" for "or" in account titles for multiple accounts, or
  3) using different Social Security numbers on multiple joint accounts.

- If the depositors designate the account as *"payable on death" and name beneficiaries*, the deposit will be analyzed as a **Category 3 – Revocable Trust** deposit.

Category 2 – Multiple Joint Accounts-Example

Account	Account Title	Balance
# 1	Jane Smith and Andrew Smith	$ 400,000
# 2	Jane Smith and Harry Jones	$ 200,000
Total		**$ 600,000**

Are all of the owners fully insured?

Category 2 – Multiple Joint Accounts-Example

	Jane's Interest	Andrew's Interest	Harry's Interest	Total
Account 1	$200,000	$200,000	$0	$400,000
Account 2	$100,000	$0	$100,000	$200,000
Total	$300,000	$200,000	$100,000	$600,000
Insured	$250,000	$200,000	$100,000	$550,000
Uninsured	$ 50,000	$0	$0	$ 50,000

Category 2 – Joint Account Coverage

Death of an Account Owner

Example: John and Jane Smith opened a joint account for $500,000 on January 1, 2011. John dies on March 31, 2011. What is the deposit insurance coverage for the account?

Six Month Rule Applies:

For six months after John's death, the account will be insured for $500,000 as though John was still living.

Therefore, after the six-month grace period, beginning October 1, 2011, assuming the account has not been restructured and Jane does not have any other single accounts at that bank, she would be insured for $250,000 in her **Category 1 – Single Account** and uninsured for $250,000.

Example:
Husband and Wife Maximizing Coverage at ABC Bank

Part 3

	Category 1 Single Accounts	Category 2 Joint Accounts	Total Coverage
John	$250,000 (#1)		$250,000
Mary	$250,000 (#2)		$250,000
John and Mary		$500,000 (#3)	$500,000
Total	**$500,000**	**$500,000**	**$1,000,000**

Note: This examples is solely to show coverage under different deposit insurance categories and is not intended to provide estate planning advice.

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.

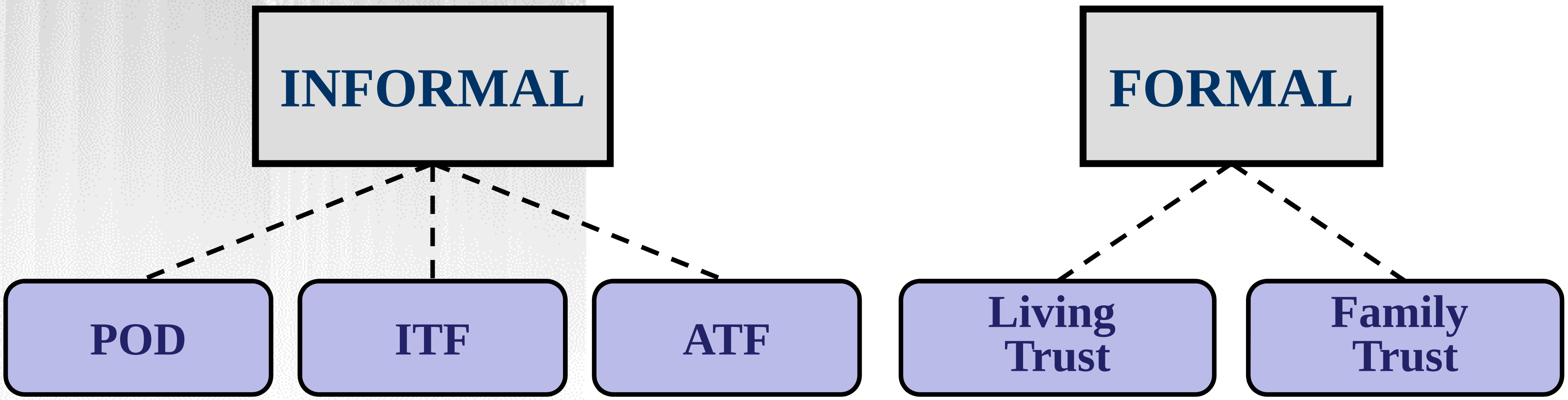
What does revocable mean?

- 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.

The account must be titled in the name of the formal trust.

Category 3 – Revocable Trust Requirements

Effective October 19, 2009

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

- For informal revocable trust accounts, 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 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) or
  - A non-profit organization (must be valid under IRS rules)
- Since a beneficiary is now any natural person, 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.

Category 3 – Revocable Trust Requirements

- **Who or what is or is 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 is 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 Coverage

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

The owner names five or fewer unique eligible beneficiaries, and the total allocated to the beneficiaries is $1,250,000 or less, then the deposit 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.
- **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

Unequal Beneficiary Allocations – POD Account

Example 1:	**Balance**
Account #1: John POD Mary	**= $ 350,000**
Account #2: John POD Sara	**= 50,000**
Total	**= $ 400,000**

Is John fully insured? YES!

- When five or fewer unique eligible beneficiaries are named, the insurance coverage is calculated as the number of owners times the number of beneficiaries times $250,000.
- In this example with one owner and two beneficiaries, the coverage is $500,000.
  (1 owner **times** 2 beneficiaries **times** $250,000 = $500,000)
- **Since the total of both accounts is $400,000, this amount is fully insured because the combined balance is less than $500,000.**

Category 3 – Revocable Trust Coverage

Unequal Beneficiary Allocations – POD Account

Example 2:	Balance
Account #1: John POD Mary	= $ 350,000
Account #2: John POD Sara	= 175,000
Total	= $ 525,000

Are John fully insured? NO!

- **The combined amount of $500,000 is insured with $25,000 uninsured.**
- The insurance coverage calculation is: One owner times two beneficiaries times $250,000 = $500,000.
- **What if the bank fails?** Can or will the FDIC "revert or default" the uninsured $25,000 back to **Category 1 – Single Accounts** if John has not used that category?

NO!

Category 3 – Revocable Trust Misconceptions

Example 3:

Facts: John POD Lisa

What is the maximum amount that can be insured for this deposit?

John (Owner) POD Lisa (Beneficiary) $250,000

Rule for revocable trusts with 5 or fewer beneficiaries:

Number of Owners **x** # of Eligible Beneficiaries **x** $250,000
= Deposit Insurance ("DI") Coverage

Correct Method!

John (Owner)	**x**	Lisa (Beneficiary)	**x**	$250,000	=	$250,000
(1)	**x**	(1)	**x**	$250,000	=	$250,000

Common Misconception:

*The **misconception** is that deposit insurance is determined by counting or adding the total number of individuals listed on a POD account. **This is incorrect!***

Incorrect Method!

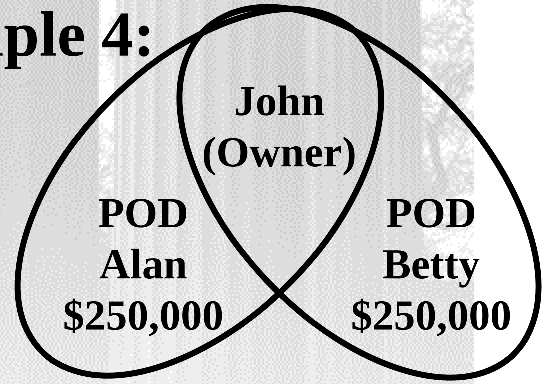
Coverage is **NOT calculated** as owners plus beneficiaries times $250,000

John (Owner)	+	Lisa (Beneficiary)	x	$250,000	=	$500,000
(1)	+	(1)	x	$250,000	=	$500,000

IMPORTANT! Remember that for revocable trusts with 5 or fewer beneficiaries, DI coverage is calculated as the number of **owners times the number of beneficiaries times $250,000.**

Category 3 – Revocable Trust Misconceptions

Example 4:



Facts: John POD Alan and Betty

What is the maximum insured amount for this deposit?

Rule for revocable trusts with 5 or fewer beneficiaries:
Number of Owners **x** of Eligible Beneficiaries **x** $250,000
= DI Coverage

Correct Method!

John (Owner)	**x**	Alan (Beneficiary)	Betty (Beneficiary)	**x**	$250,000	=	$500,000
(1)	**x**	(2)		**x**	$250,000	=	$500,000

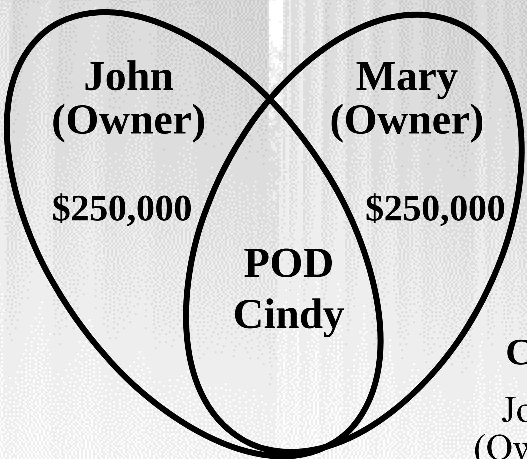
Incorrect Method!
Coverage is **NOT calculated** as owners plus beneficiaries times $250,000

John (Owner)	+	Alan (Beneficiary)	+	Betty (Beneficiary)	x	$250,000	=	$750,000
(1)	+	(1)	+	(1)	x	$250,000	=	$750,000

Common Misconception:
*The **misconception** is that deposit insurance is determined by counting or adding the total number of individuals listed on a POD account for a total of $750,000 in DI coverage. **This is incorrect!***

Category 3 – Revocable Trust Misconceptions

Example 5:



Facts: John and Mary POD Cindy

What is the maximum insured amount for this deposit?

Rule for revocable trusts with 5 or fewer beneficiaries:
Number of Owners **x** # of Eligible Beneficiaries **x** $250,000 = DI Coverage

Correct Method!

John (Owner)	Mary (Owner)	x	Cindy (Beneficiary)	x	$250,000	=	$500,000
(2)		x	(1)	x	$250,000	=	$500,000

Incorrect Method!

John (Owner)	+	Mary (Owner)	+	Cindy (Beneficiary)	x	$250,000	=	$750,000
(1)	+	(1)	+	(1)	x	$250,000	=	$750,000

Common Misconception:

*The **misconception** is that deposit insurance is determined by counting or adding the total number of individuals listed on a POD account which is three persons for a total of $750,000 in deposit insurance coverage. **This is incorrect!***

Category 3 – Revocable Trust Misconceptions

Example 6:

Facts: John opened three POD accounts.
What is the maximum insured amount for these deposits?

Account # 1
John POD Alice

Account # 2
John POD Betty and Alice

Account # 3
John POD Betty and Cindy

Rule for revocable trusts with 5 or fewer beneficiaries:
Number of Owners **x** # of Eligible Beneficiaries **x** $250,000 = DI Coverage

Common Misconception: *The **misconception** is that each beneficiary listed on a POD account would be counted even if the same beneficiary is listed repeatedly. **This is incorrect!** Although five names are listed, there are only 3 unique persons (Alice, Betty and Cindy) designated as beneficiaries. Under FDIC rules, for this example, we use 3 as the number of beneficiaries in the calculation.*

Correct Method!

John (Owner)	**x**	Alice (Beneficiary)	Betty (Beneficiary)	Cindy (Beneficiary)	**x**	$250,000	=	$750,000
(1)	**x**		(3)		**x**	$250,000	=	$750,000

FDIC

Category 3 – Revocable Trust Coverage

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

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

- **EQUAL BENEFICIARIES:** 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.
- **UNEQUAL BENEFICIARIES:** With six or more unique eligible beneficiaries with unequal percentages or dollar amount allocations to the beneficiaries, please call the FDIC at 1-877-275-3342 or sign up for one of the FDIC's 2013 Seminars on Revocable Trust Accounts.

Category 3 – Revocable Trust Calculation

Example 7:

Depositor with a POD account naming 3 eligible beneficiaries

+

Depositor with a living trust account identifying the same 3 beneficiaries

Account # 1
David Smith
POD to
Andy, Betty and Charlie
Balance is $750,000

Account # 2
David Smith Revocable Trust
which names Andy, Betty and Charlie as beneficiaries
Balance is $750,000

A depositor cannot establish both of these accounts and receive $1,500,000 of deposit insurance!

The total coverage for both accounts combined is $750,000.

Category 3 – Revocable Trust Coverage

Example 8:

		Balance
Lisa's Account: Lisa POD Andy, Beth, Cathy	**=**	**$ 540,000**
Cathy's Account: Cathy's Single Ownership	**=**	**$ 200,000**

- Lisa has a POD account at XYZ Bank where she has named three beneficiaries, Andy, Beth and Cathy.
- At the same bank where Lisa has her POD account, Cathy, one of the beneficiaries, also has a **Category-1 Single Account** for $200,000.
- While Lisa is alive, the POD account is insurable for up to $750,000 and Cathy's single ownership account is insurable for up to $250,000.
- Lisa dies on 01/01/2011. XYZ Bank fails six months after her death. Assuming no one has withdrawn any funds, what is the deposit insurance coverage?

Category 3 – Revocable Trust Coverage

Example 8 (continued) : **Balance**

#1) ~~Lisa's Account: Lisa POD~~ Andy, Beth, Cathy = $ 540,000

#2) Cathy's Account: Cathy's Single Ownership = $ 200,000

- With the application of the six month rule, the POD account would be insurable for up to $750,000 and the single account would be insurable for up to $250,000
- Six months after Lisa's death, the FDIC would consider the POD account as the **Category-1 Single Ownership** funds of Andy, Beth and Cathy.
- **Andy would be insured for $180,000 and Beth is insured for $180,000.**
- Cathy has a total $380,000 in her **Category-1 Single Ownership** accounts at the same bank. **Therefore, Cathy is insured for $250,000 and uninsured for $130,000.**

Category 3 – Revocable Trust Coverage

Example 9:

	Balance
Account #1: John POD Alice	= $ 730,000
Account #2: John POD Lisa	= 10,000
Account #3: John POD Betty	= 10,000
Total	= $ 750,000

- While John is alive, the accounts are insured for up to $750,000. John dies on 01/01/2011 and under the six month rule the accounts can continue to be insurable as if John is alive unless either an account is closed or a named beneficiary takes possession of an account and changes the account title.
- On 02/01/2011, a month after his death, Lisa, the beneficiary on Account #2, closes the account and withdraws the entire balance of $10,000. The bank fails two days later.

What is the deposit insurance coverage now that Account #2 is closed and the bank has failed?

Category 3 – Revocable Trust Coverage

Example 9 (continued):

	Balance
Account #1: John POD Alice	**= $ 730,000**
~~**Account #2: John POD Lisa**~~	~~**= 10,000**~~
Account #3: John POD Betty	**= 10,000**
Total	**= $ 740,000**

- As a result of the closure of Account #2, the deposit insurance coverage is calculated considering only two beneficiaries (Alice and Betty).
- **The total of the accounts under John's name is now $740,000, but there are only two beneficiaries and therefore the deposit insurance coverage is reduced to $500,000 with $240,000 now being uninsured.**

Category 3 – Revocable Trust – HSA

- Definition: A **Health Savings Account ("HSA")** is a tax-exempt trust or custodial account set up with a qualified HSA trustee, such as an FDIC-insured bank, to pay or reimburse certain medical expenses.
- HSAs are insured based on who owns the funds and whether beneficiaries are named in the bank account records.
- If a depositor opens an HSA with no beneficiaries named, then the FDIC would insure these funds under the depositor's **Category 1 – Single Ownership Accounts.**
- When beneficiaries are named, the FDIC will insure the owner of an HSA deposit under **Category 3 – Revocable Trust Accounts** in the same manner as a payable on death (POD) account.

IMPORTANT! The FDIC does not require "POD" or "ITF" be included in the account title for an HSA to be eligible for **Category 3 – Revocable Trust Account** coverage.

Example:
Husband and Wife Maximizing Coverage at ABC Bank

Part 3

	Category 1 Single Accounts	Category 2 Joint Accounts	Category 3 Revocable Trust Accounts	Total Coverage
John	$250,000 (#1)			$250,000
John POD Mary			$250,000(#5)	$250,000
Mary	$250,000 (#2)			$250,000
Mary POD John			$250,000 (#6)	$250,000
John and Mary		$500,000 (#3)		$500,000
John & Mary Smith Living Trust			$1,500,000 (#4)*	$1,500,000
Total	**$500,000**	**$500,000**	**$2,000,000**	**$ 3,000,000**

***For account (#4) assume the title reads "John and Mary Smith Living Trust." Alice, Betty and Cathy are the beneficiaries. Remember: 2 owners times 3 beneficiaries times $250,000 = $1,500,000.**

Category 4 – Irrevocable Trust Requirements

Irrevocable Trust Accounts - 12 C.F.R. § 330.13

For the purpose of FDIC deposit insurance coverage, irrevocable means that the grantor (person who created the trust) does not possess the power to terminate or revoke the trust.

- **An irrevocable trust may be created through:**
  - Death of the grantor of a revocable living trust
  - Execution or creation of an irrevocable trust agreement
  - Statute or court order
- **There is no "POD" or "ITF" option for an irrevocable trust deposit.**

Category 4 – Irrevocable Trust Coverage

To determine the maximum deposit insurance coverage for an irrevocable trust, consider the following:

1. Retained Interest:
   – Insured up to $250,000 as the grantor's **Category 1 – Single Account** deposits along with any other single accounts owned by the grantor.

2. Contingent Beneficial Interests:
   – All such interests are added together and insured up to $250,000.
   – Contingency examples include:
     - Beneficiaries do not receive funds unless certain conditions are met
     - Trustee may invade principal of the trust on behalf of a beneficiary
     - Trustee may exercise discretion in allocating funds

3. Non-contingent Beneficial Interests:
   – If applicable, there is pass-through coverage for each beneficiary up to $250,000.

* Insurance coverage for irrevocable trusts is usually no more than $250,000.

Category 5 – Certain Retirement Accounts

Certain Retirement Accounts - 12 C.F.R. § 330.14(b)(2)

- Deposits typically owned by only one participant in Certain Retirement Accounts
- Titled in the name of the owner's self-directed retirement account
- Coverage: $250,000 for all deposits in **Category 5 – Certain Retirement Accounts**

Category 5 – Certain Retirement Accounts

Types of accounts in this category are:

Traditional and Roth IRAs (IRAs in non-deposit products are **not** insured)	Section 457 deferred compensation plans (whether or not self-directed)
Savings Incentive Match Plan for Employees (SIMPLE) IRAs	Self-directed defined contribution plans
Simplified Employee Pension (SEP) IRAs	Self-directed Keogh plans

- A self-directed retirement account is an account for which the owner, not a plan administrator, has the right to direct how the funds are invested, including the ability to direct that the funds be deposited at a specific bank.

- **For deposits under this category such as IRAs, deposit insurance coverage <u>cannot and does not increase</u> by adding beneficiaries.**

Note: All "defined benefit plans" are excluded from this category but included under **Category 6 – Employee Benefit Plan Accounts.**

Example:
Husband and Wife Maximizing Coverage at ABC Bank

	Category 1 Single Accounts	**Category 2** Joint Accounts	**Category 3** Revocable Trust Accounts	**Category 5** Certain Retirement Accounts	Total Coverage
John	$250,000 (#1)			$250,000 (#7)	$500,000
John POD Mary			$250,000(#5)		$250,000
Mary	$250,000 (#2)			$250,000 (#8)	$500,000
Mary POD John			$250,000 (#6)		$250,000
John and Mary		$500,000 (#3)			$500,000
John & Mary Smith Living Trust			$1,500,000 (#4)		$1,500,000
Total	**$500,000**	**$500,000**	**$2,000,000**	**$500,000**	**$ 3,500,000**

Note: This example is solely to show coverage under different deposit insurance categories and is not intended to provide estate planning advice.

Category 6 – Employee Benefit Plan Accounts

Employee Benefit Plans - 12 C.F.R. § 330.14

- Employee benefit plan accounts are deposits held by any plan that satisfies the definition of an employee benefit plan in section 3(3) of the Employee Retirement Income Security Act of 1974 ("ERISA"), except for those plans that qualify under **Category 5 – Certain Retirement Accounts.**
- Account title must indicate the existence of an employee benefit plan.
- Plan administrator must be prepared to produce copies of the plan documents.
- Coverage is up to $250,000 **for each participant's non-contingent interest.**

Category 6 – Employee Benefit Plan Accounts

Types of Employee Benefit Plans:

- Defined contribution plans, including profit-sharing plans and 401(k) plans that do not qualify as "self-directed" plans.
- **All** defined benefit plans are insured under this category.

Note: Typically an employee benefit plan has multiple participants with different ownership interests.

If the requirements are met, it is possible for pass-through insurance to apply and for the total deposit insurance coverage amount for the plan to exceed $250,000.

Category 7 – Business/Organization Accounts

Business/Organization Accounts - 12 C.F.R. § 330.11

- Based on state law, the business/organization must be a legally created entity such as a/an:
  - Corporation (includes Subchapter S, LLCs, and PCs)
  - Partnership
  - Unincorporated Association
- The business/organization must be engaged in an independent activity supported by:
  - Separate tax identification numbers
  - Separate charter or bylaws

Note: "Independent activity" means that the entity was formed for a business reason and not solely to increase deposit insurance coverage.

Category 7 – Business/Organization Accounts

What is the maximum insurance coverage?

- Coverage is up to $250,000 per legal entity, engaged in an independent activity.
  - The existence of multiple signers such as partners, officers or directors does not increase coverage.
  - A separate business purpose for funds owned by the same legal entity does not increase coverage.

Category 8 – Government Accounts

Government Accounts - 12 C.F.R. § 330.15

What is a Government Account?

- Deposits placed by an **Official Custodian** of a government entity, including federal, state, county, municipality, or political subdivision.

Who is an Official Custodian?

- An official custodian is an appointed or elected official who has “plenary authority” including control/decision-making authority over funds in the account owned by the public unit.
- Control of public funds includes possession, as well as the authority to establish accounts for such funds in banks and to make deposits, withdrawals, and disbursements of such funds.

Category 8 – Government Accounts

By statute, each of these Government Entities are eligible for deposit insurance coverage:

- United States
- States
- Counties
- Municipalities
- District of Columbia
- Puerto Rico
- Other territories
- Indian tribes
- School districts
- Power districts
- Irrigation districts
- Bridge or port authorities
- Other "political subdivisions"

Category 8 – Government Accounts

Effective January 1, 2013

Accounts held by an official custodian will be insured as follows:

- In-state accounts
  - Up to $250,000 for the combined amount of all time and savings accounts (including NOW accounts) and
  - Up to $250,000 for all demand deposit accounts (interest-bearing and noninterest-bearing)
- Out-of-state accounts
  - Up to $250,000 for the combined total of all deposit accounts

Category 8 – Government Accounts

Difference between an interest-bearing Demand Deposit Account (“DDA”) and a Negotiable Order of Withdrawal (“NOW”) Account

NOW Accounts	DDA
Bank reserves the right to require at least seven days' written notice prior to withdrawal or transfer of any funds (See 12 C.F.R. § 204.2(e)(2)).	Bank **does not** reserve the right to require at least seven days' written notice of an intended withdrawal (See 12 C.F.R. § 204.2(b)(1)).
Only individuals, nonprofit organizations and governmental units can own a NOW account; for-profit entities are expressly prohibited from holding NOW accounts.	Any depositor can own a demand deposit account.

Note: NOW accounts are considered “time and savings accounts” for purposes of coverage under Category 8—Government Accounts.

Deposit Insurance for Accounts Held by Government Depositors

Section 330.15 of the FDIC's regulations (12 C.F.R. 330.15) governs the insurance coverage of public unit accounts. For deposit insurance purposes, the term "public unit" includes a state, county, municipality, or any "political subdivision" of the public unit. Under section 330.15, the "official custodian" of the funds belonging to the public unit – rather than the public unit itself – is insured as the depositor.

Permanent Rule

The insurance coverage of public unit accounts depends upon the type of deposit and the location of the insured depository institution. All time and savings deposits owned by a public unit and held by the public unit's official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000. Separately, all demand deposits owned by a public unit and held by the public unit's official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000. For the purpose of these rules, the term 'time and savings deposits' includes NOW accounts and money market deposit accounts but does not include interest-bearing demand deposit accounts (which were permitted after July 21, 2011). The term 'demand deposits' means both interest-bearing and noninterest-bearing deposits that are payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal. The insurance coverage of accounts held by government depositors is different if the depository

Category 9 – Mortgage Servicing Accounts

Mortgage Servicing Accounts - 12 C.F.R. § 330.7(d)

- Commingled Principal and Interest (P&I) payment accounts established by mortgagees or investors are insured with coverage provided up to the SMDIA of $250,000 **per mortgagor** (borrower).
  - Coverage is provided to the mortgagees (investors).
  - Calculation of coverage is separate if the mortgage servicer or mortgage investor establishes multiple P&I accounts at the same bank.
- Payment of Taxes and Insurance (T&I) are insured on a pass-through basis as the single ownership funds of each respective mortgagor.

Category 10 – Noninterest-bearing Transaction Accounts

Noninterest-bearing Transaction Accounts - 12 C.F.R. § 330.16(a)

Important!

- The temporary unlimited coverage provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act **expired** on December 31, 2012.

EXPIRED 12/31/2012

- Effective January 1, 2013, a depositor's noninterest-bearing transaction accounts are still insured, however they are added to other deposit accounts <u>in the same ownership category</u> at the same bank. The combined balance is insured up to the SMDIA of $250,000.

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

Owners = 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

~~- TEMPORARY -~~
~~CATEGORY 10~~
~~NONINTEREST-BEARING~~
~~TRANSACTION ACCOUNTS~~

Expired 12/31/2012

PART 4

FIDUCIARY and AGENCY ACCOUNTS

Fiduciary and Agency Accounts

Fiduciary and Agency Accounts - 12 C.F.R. § 330.5 and 12 C.F.R. § 330.7

Important!

Fiduciary or agency accounts **are not** an ownership category!

These are deposit accounts established and maintained by third parties on behalf of the actual owner (referred to as the principal).

What makes these deposits different?

- An account that meets the definition of a fiduciary or agency account is entitled to "pass-through" deposit insurance coverage from the FDIC through the third party who establishes the account to the actual owner(s). The deposit account can be established for the benefit of a single owner or a commingled account may be established for the benefit of multiple owners.

Fiduciary and Agency Accounts

Examples of Third Parties Who Establish Fiduciary Accounts
Agent
Nominee
Guardian
Conservator
Executor
Broker

Examples of Fiduciary or Agency Accounts
Escrow
Power of Attorney
Uniform Transfer to Minors Act (UTMA)
Attorney Trust (IOLTA)
Agency
Brokered CDs

Fiduciary and Agency Accounts

What is "pass-through" deposit insurance coverage?

- When funds are deposited by a fiduciary or custodian on behalf of one or more actual owners of the funds, the FDIC will insure the funds as if the actual owners had established the deposit in the bank.

What is the amount of "pass-through" deposit insurance coverage?

- Assuming the deposit meets the requirements for pass-through insurance coverage, then the amount of FDIC insurance coverage will be based on the ownership capacity (i.e., under the applicable ownership category) in which each principal holds the funds.

Fiduciary and Agency Accounts

The requirements for pass-through coverage include:

- Funds must be owned by the principal not the third party who set up the account (i.e., the fiduciary or custodian who is placing the funds). To confirm the actual ownership of the deposit funds, the FDIC may review:
  1. The agreement between the third party establishing the account and the principal
  2. The applicable state law
- Bank's account records must indicate the agency nature of the account (e.g., XYZ Company as Custodian, XYZ FBO, Jane Doe UTMA John Smith, Jr.)
- Bank's records or accountholder's records must indicate both the principals' identities as well as their ownership interest in the deposit.
- Deposit terms (i.e., the interest rate and maturity date) for accounts opened at the bank must match the terms the third party agent promised the customer.
- If the terms don't match, the third party agent might be deemed to be the legal owner of the funds by the FDIC. An agent may retain a portion of the interest (as the agent's fee) without precluding pass-through coverage.

Fiduciary and Agency Accounts

Aggregation of Deposits

- For the purpose of calculating FDIC deposit insurance coverage, any funds deposited by a third party on behalf of a principal will be added to any other deposits the principal may have in the same ownership category at the same bank.

Fiduciary and Agency Accounts

Examples of a Bank's Involvement in Agency Accounts

A bank may accept or receive third party deposits in a number of ways including:

1. As a direct depository for agency funds (most common situation)
2. As an agent/broker placing funds with other banks as part of a third-party program
3. As an agent/broker placing customers' funds with other banks as part of its own program

For more information, see Guidance on Deposit Placement and Collection Activities (FIL-29-2010), dated June 7, 2010.

PART 5

BANK MERGERS AND FAILURES

Bank Mergers and Failures

Coverage When Banks Merge

Basic rule - There is separate deposit insurance coverage (i.e., for deposits at each bank) for up to six months (starting with the effective date of the merger) if a depositor had funds in two banks that merged.

- ***Special exception for time deposits* –** For time deposits (i.e., CDs) issued by the assumed bank, separate deposit insurance coverage will continue for the greater of either six months or the first maturity date of the time deposit.

Bank Mergers and Failures

Coverage When A Bank Fails

FDIC pays depositors "as soon as possible."

- FDIC's goal is to make deposit insurance payments within two business days of the failure of the bank.
- Depositors with brokered deposits will take longer to recover their insured funds.
- FDIC pays 100 cents on the dollar, or 100%, for **all insured deposits.**
- Depositors with uninsured deposits may recover a portion of their uninsured funds.

Bank Mergers and Failures

Loans Offset Against Deposits

In the case of a non-delinquent loan, the depositor may elect to "set off" the loan against his/her deposits in order to receive full value for any uninsured deposits provided the following exists:

1) Mutuality – the exact same owner of both the deposit and loan,
2) Not a "special purpose" deposit (e.g., funds held by the bank trust department for safekeeping),
3) The funds are not property of a third party, and
4) The offset is permitted by state law.

PART 6

DEPOSIT INSURANCE COVERAGE RESOURCES

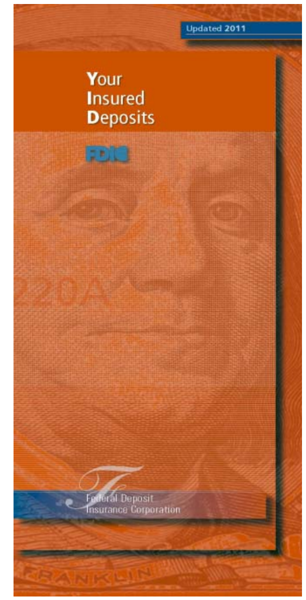
FDIC Resources

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

NEW! Deposit Insurance Coverage Resources

- The FDIC has developed two new deposit insurance coverage resources
  - **Large Print version of "Your Insured Deposits"** *(8.5" x 11")* is available.
  - **Deposit Insurance Training for Bankers** is a user-friendly, self-paced training tool with built-in learning examples to assist bankers in understanding the basics of deposit insurance coverage. The training takes an average of 45 minutes to complete and is offered in English and Spanish. It is available on the FDIC's Web site, on DVD and as a PDF.

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 in this Training