

Federal Deposit Insurance Corporation

Fundamentals of Deposit Insurance Coverage

Seminar For Bankers

FDIC May 2014

NOTE: Participants must log in to join the Live Meeting and must also dial into a conference call number for the audio portion of this presentation. This includes the question-and-answer period.

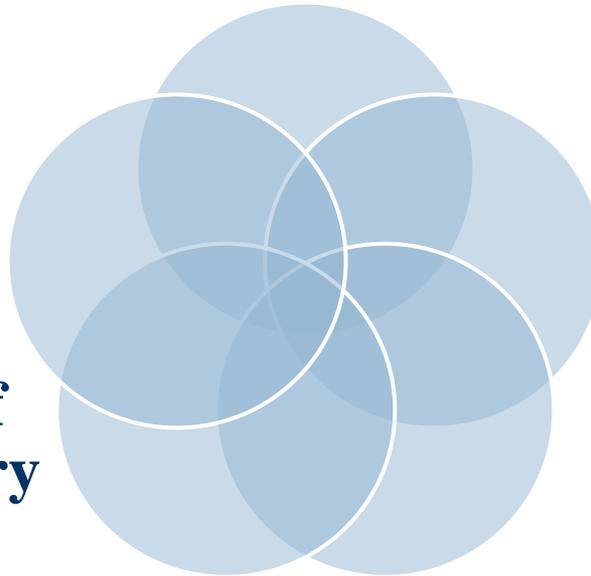
Outline

Part 1 – General Principles

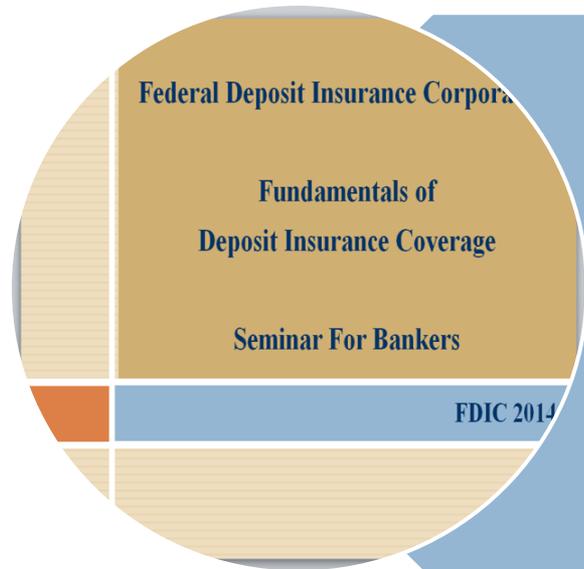
Part 2 – Introduction to Ownership Categories

Part 3 – Review of Ownership Category Requirements

Part 4 – Deposit Insurance Coverage Resources



Seminar on Deposit Insurance Coverage



Part 1 – General Principles

General Principles

- ❑ Since 1933, the FDIC has protected the depositors of insured depository institutions (IDIs) against the loss of their deposits.
- ❑ No depositor has ever lost a single penny of FDIC-insured funds.
- ❑ The FDIC is backed by the Full Faith and Credit of the United States Government.

General Principles

- ❑ Depositors are insured at each IDI for up to at least the standard maximum deposit insurance amount (SMDIA).
- ❑ The SMDIA is \$250,000 (made permanent in 2010 under the Dodd-Frank Wall Street Reform and Consumer Protection Act).
- ❑ Coverage includes principal and accrued interest up through the date of an IDI's failure.

General Principles

- ❑ FDIC deposit insurance is provided for “deposit” products only.

Insured—IDI Deposits	Not Insured—Non-deposit Products
Checking Accounts	Stocks, Bonds, Municipal Bonds, and Other Securities
Money Market Deposit Accounts (“MMDA”)	Mutual Funds (money market mutual funds and stock, bond, or other security mutual funds)
Savings Accounts	Annuities
NOW Accounts	Insurance Products
Certificates of Deposit	Safe Deposit Box Contents

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 Amount	\$ 250,000
Uninsured Amount	\$ 1,000

General Principles



General Principles: Per Depositor

Coverage is provided on a per depositor basis

- ❑ Deposit accounts owned by different depositors are separately insured.
- ❑ Depositors that may qualify to receive FDIC deposit insurance coverage include natural persons, legal entities such as corporations, partnerships, and unincorporated associations, and public units such as cities and counties.
- ❑ A depositor does not have to be a citizen or resident of the United States to be eligible for deposit insurance coverage.

General Principles: Per Ownership Category

Coverage is provided per ownership category

- ❑ Deposits that a person or entity maintains in different ownership categories at the same IDI 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 IDI are added together and insured up to at least \$250,000.

General Principles: Per IDI

Coverage is provided on a per IDI basis

- ❑ Deposits placed in the branch offices of an IDI with the same charter are added together.
- ❑ Deposits placed in separately chartered IDIs are separately insured.
- ❑ Deposits in separate branches of an IDI are not separately insured even if the branches are in different states.

General Principles

Death of an Account Owner

- ❑ The death of an account owner will in some cases reduce the amount of deposit insurance coverage. This is especially the case for co-owned accounts.
- ❑ If an account owner dies, 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 When IDIs Merge

- ❑ Basic rule – There is separate deposit insurance coverage (i.e., for deposits at each IDI) for up to six months (after the effective date of the merger) if a depositor had funds in two IDIs that merged.
- ❑ Special exception for time deposits – For time deposits (i.e., CDs) issued by the assumed IDI, separate deposit insurance coverage will continue for the greater of either six months or the first maturity date of the time deposit.

General Principles

Coverage When An IDI Fails

FDIC pays depositors “as soon as possible.”

→ FDIC’s goal is to make deposit insurance payments within two business days of an IDI’s failure.

→ Processing brokered deposits may take longer since the broker needs to supply the FDIC with information about each depositor.

→ FDIC pays 100 cents on the dollar for **all insured deposits.**

→ Depositors with uninsured deposits may recover a portion of their uninsured funds.

General Principles

**Deposit
Account
Records**



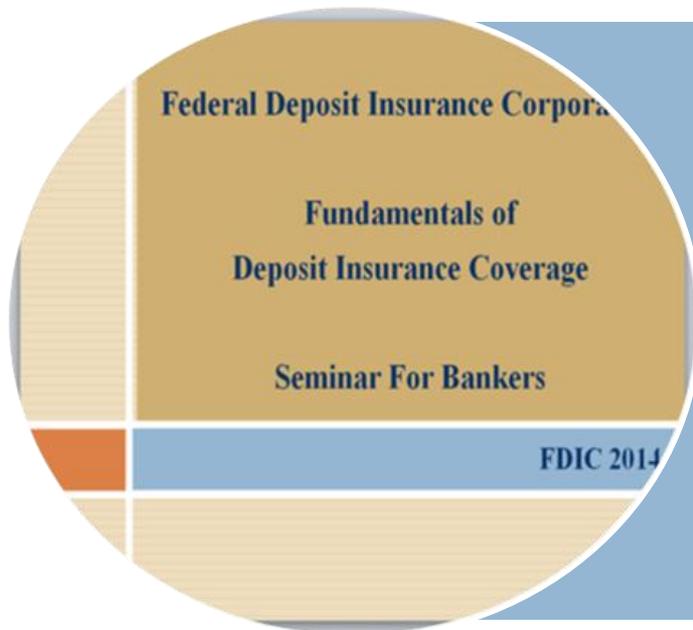
**In the event of an IDI
failure, the FDIC relies on
IDI deposit account
records to determine
ownership.**



**Examples of IDI 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 IDI including computer records that relate to the IDI's deposit-taking function**

Seminar on Deposit Insurance Coverage



Part 2 - Introduction to Ownership Categories

Introduction to Ownership Categories

- In order to determine deposit insurance coverage, bankers must ask and answer the following three questions:
 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?

Introduction to Ownership Categories

1. Who Owns The Funds:

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

- ❑ An owner or a depositor can be:
 - ❑ A person
 - ❑ A business/organization
 - ❑ A government entity

Introduction to Ownership Categories

2. What ownership category is the depositor eligible to use or attempting to use?

- ❑ 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.
- ❑ This seminar will discuss the nine most common ownership categories.

Introduction to Ownership Categories

3. Does the depositor meet the requirements of a specific category?

- ❑ If a depositor can meet the rules for a specific category, then their deposits will be entitled to both of the following:
 - ❑ Up to the SMDIA in deposit insurance coverage that is provided for under the ownership category, and
 - ❑ Separate coverage from funds deposited under a different ownership category.

Introduction to Ownership Categories

Owner = individual

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/organization

Category 7
Corporations,
Partnerships
and
Unincorporated
Association
Accounts

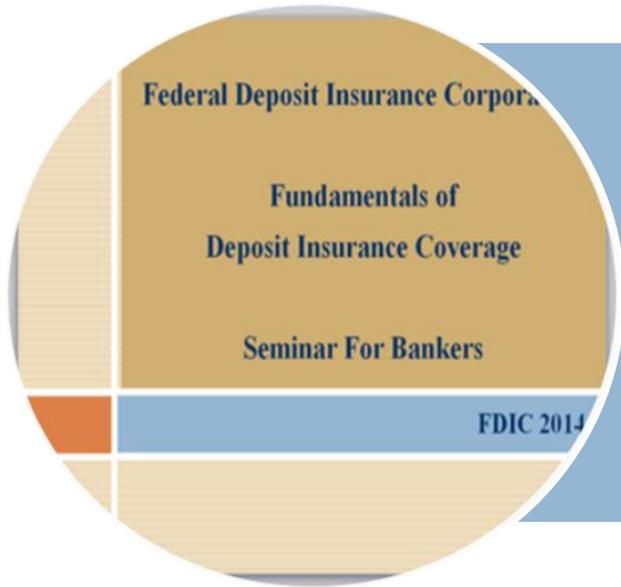
Owner = government entity

Category 8
Government
Accounts

Owner = mortgagee/lender

Category 9
“P and I”
Funds in
Mortgage
Servicing
Accounts

Seminar on Deposit Insurance Coverage



Part 3 – Review of Ownership Category Requirements

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	ACCOUNT BENEFICIARIES
<input type="checkbox"/> Personal Account <input type="checkbox"/> Non-Personal Account	Name of Beneficiary
<input type="checkbox"/> Individual / Single <input type="checkbox"/> Estate <input type="checkbox"/> Individual Unincorporated (e.g. DBA) <input type="checkbox"/> Joint With Survivorship <input type="checkbox"/> Joint No Survivorship <input type="checkbox"/> POD / ITF / Totten <input type="checkbox"/> Revocable Trust <input type="checkbox"/> Irrevocable Trust <input type="checkbox"/> Corporation / Partnership / LLC <input type="checkbox"/> Non-Profit <input type="checkbox"/> Government	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	
<input type="checkbox"/> Fiduciary	

SELF DIRECTED RETIREMENT ACCOUNT ENROLLMENT				
ACCOUNT TYPE				
<input type="checkbox"/> Traditional IRA <input type="checkbox"/> Roth IRA <input type="checkbox"/> SIMPLE IRA <input type="checkbox"/> SEP IRA	<input type="checkbox"/> Inherited IRA <input type="checkbox"/> Inherited Roth IRA <input type="checkbox"/> Rollover IRA <input type="checkbox"/> 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)**

Hypothetical Signature Card

Ownership Categories

(Cat.4) Irrevocable Trust Accounts

(Cat.7) Corporation, Partnership,
Unincorporated Association Accounts

(Cat.8) Public Unit/Government
Accounts

NOT AN OWNERSHIP CATEGORY-
Deposit insurance coverage “**passes
through**” the fiduciary to the actual
owner, based on how the funds are
held.

(Cat.5) Certain Retirement Accounts*

- Irrevocable Trust**
- Corporation/Partnership/LLC
Non-Profit**
- Government**
- Fiduciary (Broker, IOLTA, UTMA, etc.)**

- 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

Ownership Category Requirements

Six most common ownership categories

**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**

Category 1- Single Accounts

- ❑ A Single Account represents funds:
 - ❑ Owned by one natural person and no beneficiaries are named.
- ❑ Examples of Single Accounts
 - ❑ Accounts held by an individual (with no beneficiaries named).
 - ❑ Funds owned by a Sole Proprietorship or DBA are insured in this category (not in Category 7 – Business/Organization 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

- Coverage:
 - Up to \$250,000 for all Category 1 – Single Account deposits.
 - All Category 1 – Single Accounts owned by the same depositor at the same IDI are added together and insured up to \$250,000.

Remember!

- 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
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Uninsured Amount	\$ 75,000
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Category 2 – Joint Accounts

- ❑ Joint Accounts represent funds owned by two or more depositors.
- ❑ Requirements:
 - ❑ Depositors must be natural persons.
 - Corporations, partnerships, associations, trusts and estates are not eligible for Category 2- Joint Account coverage.
 - ❑ Each co-owner must sign the signature card (CD and broker exceptions). Electronic signatures are acceptable.
 - ❑ Each co-owner must have the same withdrawal rights as the other co-owner(s).

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

Category 2 – Joint Accounts

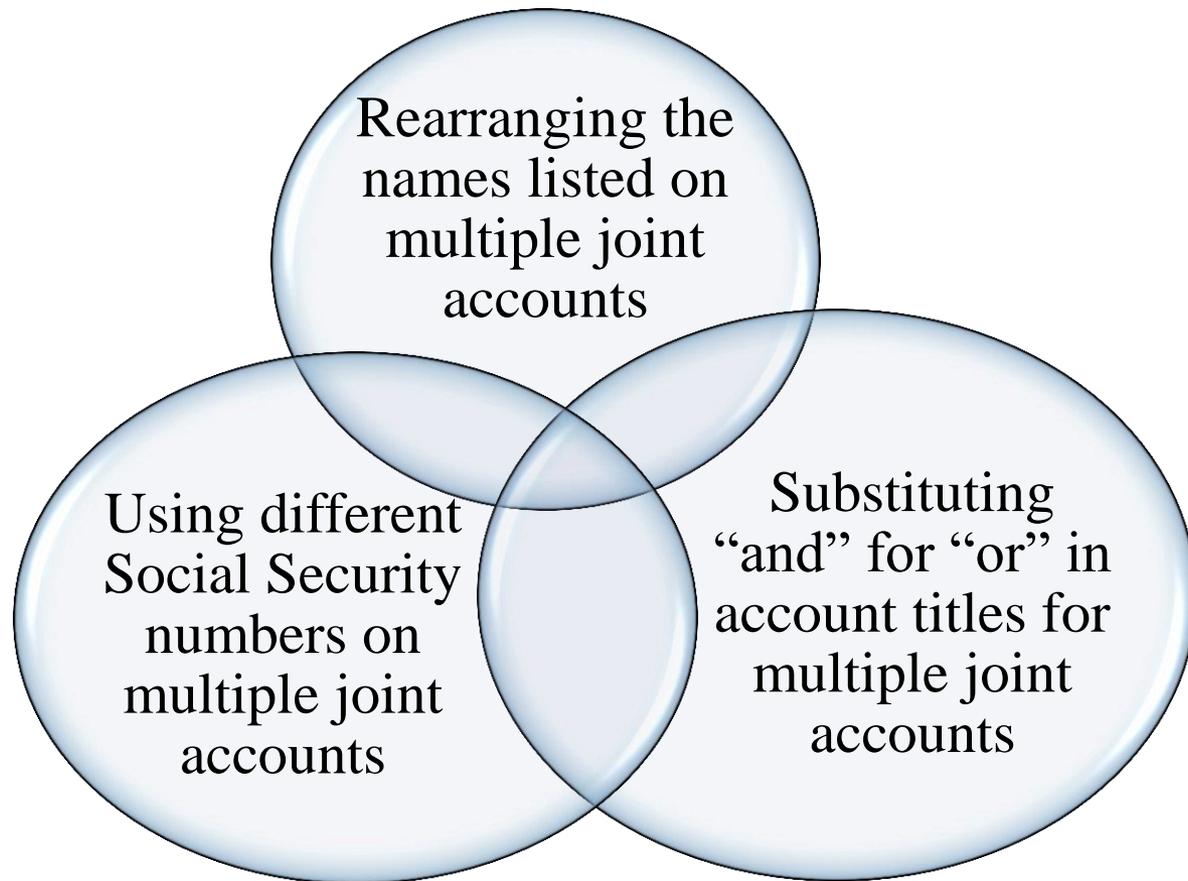
- ❑ Coverage:
 - ❑ Up to \$250,000 for each owner's share of all **Category 2 – Joint Account** deposits at the same IDI.
 - ❑ If a depositor establishes multiple joint accounts, the owner's shares in all joint accounts are added together and insured up to \$250,000.

Remember!

- ❑ Adding a name to a joint account for convenience purposes may limit equal withdrawal rights and result in the account being insured as a **Category 1- Single Account**.
- ❑ If two or more depositors designate an account as *“payable on death” and name beneficiaries*, the deposit will be analyzed as a **Category 3 – Revocable Trust Account**.

Category 2 – Joint Accounts

Deposit insurance coverage for a joint account is not increased by:



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, 2013. John dies on March 31, 2013. 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.

- ❑ After the six-month grace period, beginning October 1, 2013, assuming the account has not been restructured and Jane does not have any other single accounts at that IDI, she would be insured for \$250,000 in her **Category 1 – Single Account** and uninsured for \$250,000.

Category 3 – Revocable Trust Accounts

- ❑ A Revocable Trust Account is a deposit where the owner indicates an intention that the funds will belong to one or more named beneficiaries upon the last owner's death.
- ❑ In a Revocable Trust, the owner retains the right to change beneficiaries and/or allocations or to terminate the trust.
- ❑ The FDIC recognizes two types of revocable trusts:
 - ❑ Informal revocable trusts
 - ❑ Formal revocable trusts

Category 3 – Revocable Trust Beneficiaries

❑ 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)

❑ An eligible beneficiary is now any natural person. There is no longer a kinship requirement.

Category 3 – Revocable Trust Account Titling

- ❑ **For revocable trust accounts, 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, “account title” includes the electronic deposit account records of the bank.
 - ❑ The FDIC will recognize the account as a revocable trust account provided 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 – Five or Fewer Beneficiaries

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 – Six or More Beneficiaries

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:
 - ❑ 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.
 - ❑ With six or more unique eligible beneficiaries with **unequal** percentages or dollar amount allocations to the beneficiaries, the deposit insurance coverage is at least \$1,250,000. For any questions, please call the FDIC at 1-877-275-3342 or sign up for one of the FDIC's 2014 Seminars on Revocable Trust Accounts.

Category 3 – Revocable Trust Accounts

What is the deposit insurance coverage for a POD account with one owner and one beneficiary?

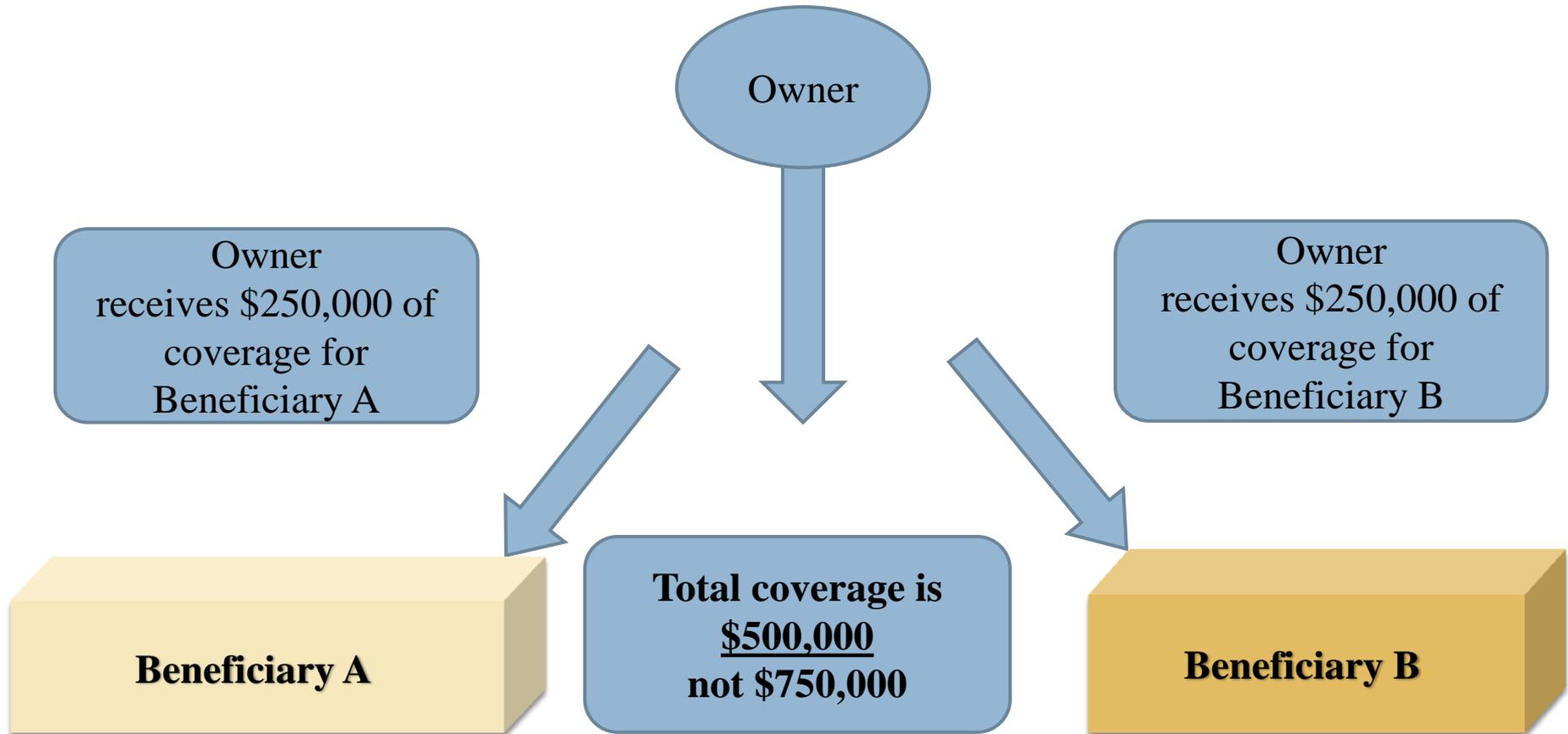
- ❑ *There is a **misconception** that deposit insurance is determined by counting or adding the total number of owners and beneficiaries listed on a POD account. **This is incorrect!***

Example: John POD Lisa

- ❑ What is the maximum amount that can be insured for this deposit?
 - ❑ For five or fewer beneficiaries, deposit insurance (DI) coverage is determined by using the following formula:

Number of owners times the number of beneficiaries times \$250,000 = DI
 - ❑ There is one owner of this POD (John) and there is one beneficiary on this POD (Lisa).
 - ❑ 1 owner x 1 beneficiary x \$250,000 = \$250,000.
 - ❑ The maximum DI coverage for this POD is \$250,000, NOT \$500,000.

Category 3 – Revocable Trust Accounts



DI coverage is based on one owner and two different beneficiaries and using the following formula:

$$1 \text{ owner} \times 2 \text{ beneficiaries} \times \$250,000 = \$500,000$$

Category 4 – Irrevocable Trust Accounts

- ❑ 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
- ❑ Coverage:
 - ❑ **An Irrevocable Trust Account** is usually insured for a maximum of up to \$250,000.

Category 4 – Irrevocable Trust Accounts

To determine the maximum deposit insurance coverage for an Irrevocable Trust Account, consider the following:

1. Grantor 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.

Category 5 - Certain Retirement Accounts

- ❑ In a **Certain Retirement Account**, deposits are owned by only one participant.
- ❑ Requirements:
 - ❑ Must be self-directed (except for Section 457 Plans).
 - ❑ The owner of the plan, **not an administrator**, has the right to direct how the funds are invested, including the ability to direct that the funds be deposited at a specific IDI.
 - ❑ Account must be titled in the name of the owner's self-directed retirement plan.
- ❑ Coverage:
 - ❑ \$250,000 for all deposits in **Category 5 – Certain Retirement Accounts**.

Category 5 - Certain Retirement Accounts

Types of accounts insured under this category include:

Traditional and Roth IRAs
(IRAs in non-deposit products are
not insured)

Savings Incentive Match Plan for
Employees (SIMPLE) IRAs

Simplified Employee Pension
(SEP) IRAs

Section 457 deferred compensation
plans (whether or not self-directed)

Self-directed defined
contribution plans

Self-directed Keogh plans

Remember!

- ❑ **For deposits under this category such as IRAs, deposit insurance coverage cannot and does not increase by adding beneficiaries.**
- ❑ All “defined benefit plans” are excluded from this category but included under Category 6 – Employee Benefit Plan Accounts.

Category 6 – Employee Benefit Plan Accounts

- ❑ 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**.
- ❑ Requirements:
 - ❑ Account title must indicate the existence of an employee benefit plan.
 - ❑ Plan administrator must be prepared to produce copies of the plan documents.
- ❑ Coverage:
 - ❑ **\$250,000 for each participant’s non-contingent interest.**

***Non-contingent interest** means an interest that can be determined without evaluation of a contingency other than life expectancy (See 12 C.F.R. § 330.12(g)(3)).

Category 6 – Employee Benefit Plan Accounts

Types of accounts insured under this category include:

- ❑ Defined contribution plans, including profit-sharing plans and 401(K) plans that do not qualify as “self-directed” plans;
- ❑ All defined contribution plans.

Remember!

- ❑ Category 6 – Employee Benefit Plan Accounts are fiduciary accounts and must satisfy the FDIC’s rules regarding pass-through coverage to be insured under this deposit insurance category.

Category 7 – Business/Organization Accounts

- ❑ Business/Organization Accounts represent funds owned by a business or an organization.
- ❑ Based on state law, the business/organization must be a legally created entity.
- ❑ Coverage:
 - ❑ Up to \$250,000 per legal entity, provided that the entity is engaged in an “independent activity”—meaning it was formed for a legitimate business purpose and not solely to increase deposit insurance coverage.

Category 8 – Government Accounts

- ❑ Government Accounts are funds deposited by an Official Custodian of a government entity, including federal, state, county, municipality, or political subdivision.
- ❑ For Category 8 - Government Accounts, coverage depends on the location of the IDI where the funds are held as well as the type of the deposit.
- ❑ Coverage: At least up to \$250,000 per official custodian.

Category 9 – Mortgage Servicing Accounts

- ❑ Mortgage Servicing Accounts are established by mortgagees or lenders and represent commingled principal and interest payments received from borrowers.

- ❑ Coverage:
 - ❑ Up to \$250,000 per borrower.

 - ❑ *Based on the borrowers' payments* of principal and interest into the mortgage servicing account.

 - ❑ *Provided to the mortgagee/lenders*, as a collective group.

 - ❑ These funds will not be aggregated with other deposit accounts that the borrowers may maintain at the same IDI.

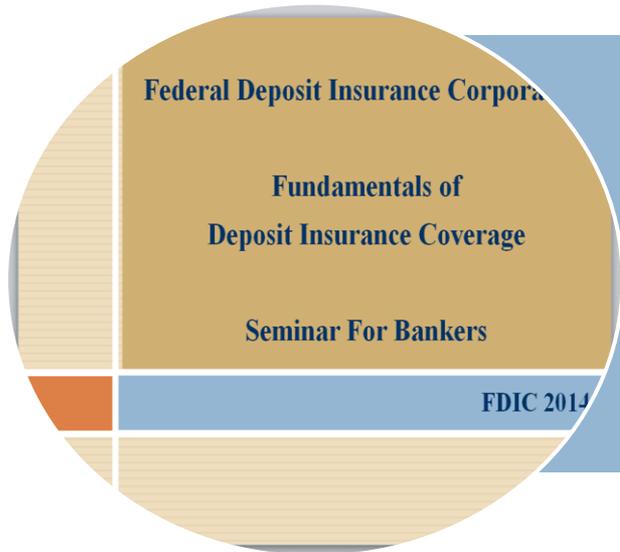
Ten Items to Remember about Deposit Insurance Coverage

1. Deposit insurance coverage is provided per depositor, per ownership category, per IDI.
2. At the same IDI, a depositor can be insured for more than the SMDIA if they own accounts in different ownership categories.
3. Separate coverage is provided to depositors for separate account ownership categories.
4. All accounts owned by the same depositor in the same ownership category at the same IDI are added together and insured up to the insurance limit.
5. Deposit insurance coverage is up to the SMDIA and includes principal plus accrued interest up through the date of an IDI's failure.

Ten Items to Remember about Deposit Insurance Coverage

6. Deposits owned by one or more individuals that identify POD beneficiaries are insured as revocable trust accounts on a per beneficiary basis.
7. A POD account with one owner and one eligible beneficiary is insured for up to \$250,000, not \$500,000.
8. Adding beneficiaries on an IRA does not increase the coverage because Certain Retirement Accounts, such as IRAs, are insured for up to a maximum of \$250,000.
9. To check your deposit insurance coverage, log on to the FDIC's EDIE calculator at www.fdic.gov/edie.
10. If you have any questions about deposit insurance coverage, call the FDIC at 1-877-275-3342.

Seminar on Deposit Insurance



Part 4 – Deposit Insurance Coverage Resources

Additional 2014 FDIC Seminars

FDIC 2014 Seminar for Bankers
Deposit Insurance Coverage for
Revocable Trust Accounts

Category 3
Revocable
Trust
Accounts

FDIC 2014 Seminar for Bankers

Advanced Topics in Deposit Insurance Coverage

Category 7
Corporations,
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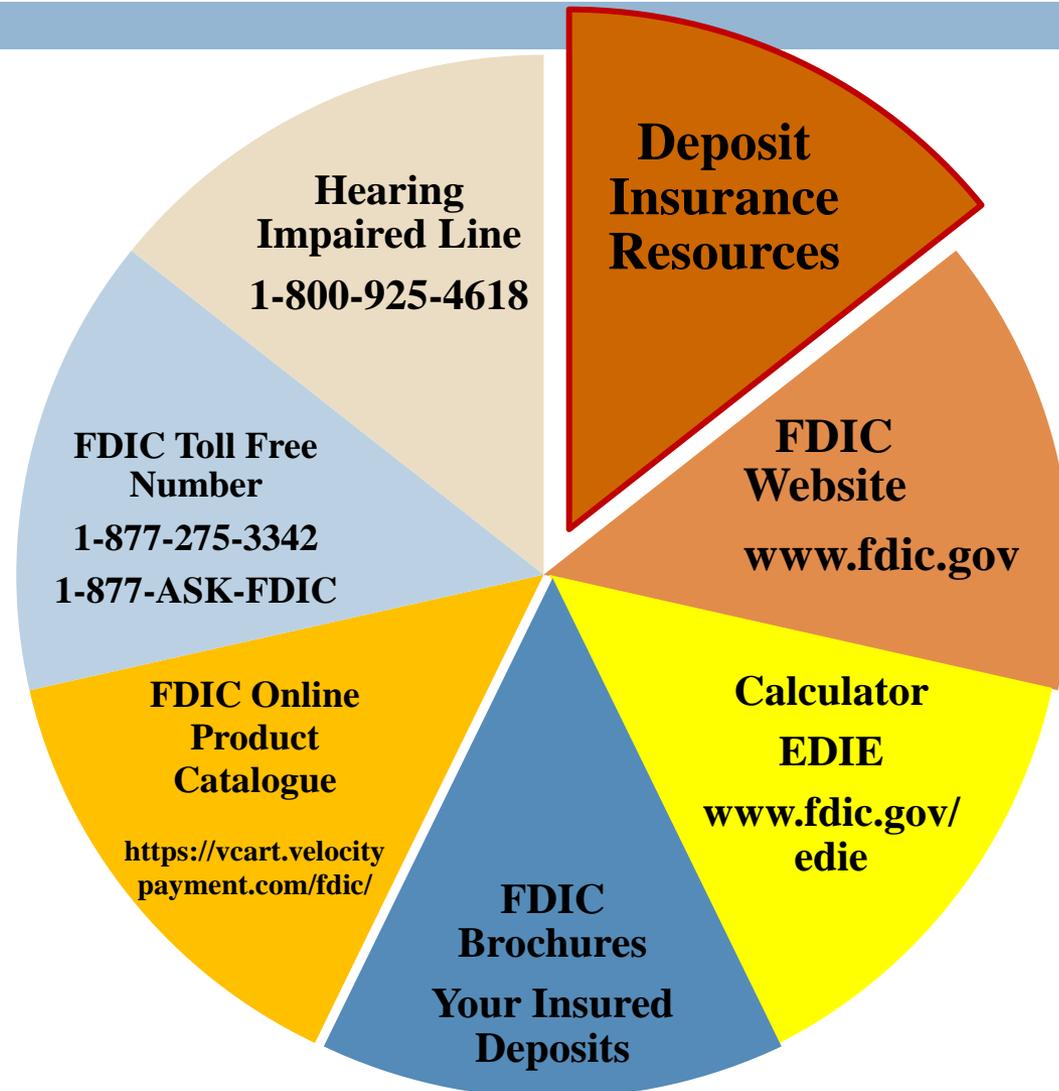
Health
Savings
Accounts

When IDIs
Merge

Right of
Offset

Pass-Through
Deposit
Insurance
Coverage

Deposit Insurance Resources



Seminar on Deposit Insurance



Thank you for participating in the seminar!

Questions?