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# Protecting Your Banking Assets

by the Schwab Center for Financial Research

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The Federal Deposit Insurance Corporation (FDIC) took control of the Pasadena-based [IndyMac Bank](#), F.S.B., on Friday, July 11, 2008, leaving many depositors nervous during the weekend of July 12–13. Although bank failures are relatively rare events, prudence suggests evaluating the steps you can take in order to protect the assets you have in the banking system.

Steering depositors away from panic and instilling public confidence in the banking system were reasons why Congress created the FDIC in 1933 as an independent agency of the United States. The FDIC insures deposits at 8,494 banks and savings associations and is backed by the full faith and credit of the U.S. government. When a bank fails (which has happened 127 times in the past 15 years), depositors can take some comfort in knowing federal law requires the FDIC to make payments as soon as possible.

Based on its previous track record, the FDIC has typically made insured deposits available within a few days after a bank closing. As of March 2008, the FDIC fund was well-funded with assets totaling \$53 billion. Therefore, the most important takeaway for bank depositors is to maximize the amount of their balances that fall under the FDIC insurance safety blanket.

Finding out your bank has failed is nerve-racking, and once it has happened, there's not much you can do after the fact. However, with a little bit of planning beforehand, depositors can greatly increase their insured amounts and significantly reduce their exposure to loss should their banks fail.

Here are a few ideas to help you get started:

- Make deposits at FDIC-insured banks. The FDIC logo should be plainly displayed on their Web site and in their branches.
- Make sure you understand the rules of insurance coverage. The FDIC aggregates each customer's deposits, such as checking accounts, savings accounts and CDs, into several "ownership categories" that each receive separate FDIC insurance coverage. Understanding and taking advantage of these ownership categories is the primary way for depositors to maximize their FDIC-insured balances.

Ownership Category	Insurance Limit
Single accounts	\$100,000 per depositor across all accounts of the same category. Includes sole proprietorship accounts.
Joint accounts	\$100,000 per owner across all accounts.

Certain retirement accounts	\$250,000 per owner, excluding Coverdell education savings, health savings and medical savings accounts.
Revocable trust accounts	\$100,000 per qualified beneficiary per owner. Includes both formal and informal revocable trust accounts.
Irrevocable trust accounts	\$100,000 per trust when trust has contingencies.
Employee benefit plan accounts	Up to \$100,000 for each participant's noncontingent interest in the plan.
Corporation, partnership and unincorporated association accounts	\$100,000 per incorporated entity, partnership, or unincorporated association.
Government accounts	\$100,000 per official custodian of the government entities. Demand deposits are separately insured from savings deposits.

- Make the most of the first four ownership categories listed above (the most common categories) to maximize coverage. For example, with careful planning, a married couple can have more than \$1 million of FDIC coverage. Here's how:

Account Title	Insured Amount
Wife's individual savings accounts, checking accounts and CDs	\$100,000
Husband's individual savings accounts, checking accounts and CDs	\$100,000
Husband and wife joint checking accounts, savings accounts and CDs	\$200,000
Husband's retirement account (IRA)	\$250,000
Wife's retirement account (IRA)	\$250,000
Husband and wife's living trust account naming three children as beneficiaries	\$600,000
<b>Total</b>	<b>\$1,500,000</b>

- When purchasing CDs through a brokerage account, make sure to stay under the \$100,000 insurable limit with any single issuing bank, and don't forget to consider any other deposits you may have with an issuing bank (e.g., if you already have deposits of \$100,000 with a bank, don't purchase CDs from the same bank in the same ownership category).
- A lesser-known ownership type is the payable-on-death (POD) account, a type of informal revocable trust. Using this type of account can easily increase your total insurable amount because the coverage is given for each "qualified" beneficiary (which excludes nieces and nephews, among others).
- Be aware of the implications of bank mergers and acquisitions. If you have deposits at both banks, you may inadvertently end up with uninsured balances. However, the FDIC provides a six-month grace period where the ownership categories are insured separately for each affected bank. If necessary, make sure to restructure your accounts within that time period.
- Periodically review your beneficiaries for your trust accounts. The death of a beneficiary can reduce your FDIC coverage. For more help, see the Rande Spiegelman article, "[Losing a Loved One](#)."
- Because the deposit insurance rules are so complex, you may want to use FDIC's online tool, Electronic Deposit Insurance Estimator ([EDIE](#)), to estimate your total coverage at any particular bank.
- If, after exhausting all of your options, you still have uninsured balances remaining, then your final option is to open another account at a different bank.

By understanding the FDIC rules and structuring your accounts appropriately, you can ensure that all of your bank deposits are insured by the FDIC. That way, if you are ever affected by a bank failure, it may be easier to sleep at night knowing your insured deposits are backed by the full faith and credit of the U.S. government.

If you're one of the unlucky few who has uninsured deposits at a bank that has already failed, there is not much you can do to increase your insured amounts at this stage. However, there are some important things you should know and

actions you should take in order to maximize the recovery of your assets:

- Take an inventory of all of your bank deposit accounts at the failed bank. Collect information such as account balances, account names and names of beneficiaries. Make sure to include any CDs issued by the bank that were purchased in brokerage accounts.
- If you or your family's account balances total more than \$100,000, use the FDIC online tool [EDIE](#) to estimate your insurance coverage. Due to separate coverage on different ownership categories, your accounts may be covered beyond the basic \$100,000 amount. Any account balance exceeding your FDIC coverage is considered an uninsured deposit. Visit the [FDIC Web site](#) for more information.
- Expect interest rates on CDs issued by the bank to be reduced. The acquiring bank has the right to change CD terms, but you also have the right to terminate without penalty.
- Continue making loan payments on outstanding debt owed to the failed bank. The terms of the loan are fixed, and you are contractually obligated to pay. However, if you have any uninsured deposits at the failed bank, you may be able to deduct the the outstanding loan balance from the uninsured balance if the title on both is the same. Discuss this with an FDIC claims agent.
- Make an appointment with an FDIC claims agent to make claims on your uninsured deposits. The amount of uninsured deposits you may receive, if any, will be based on the sale of the failed bank's assets. As assets are sold, uninsured depositors receive periodic payment on their uninsured deposit claims. Although this is better than receiving nothing for your uninsured balances, the process can take years. Although not required to do so, in IndyMac's case, the FDIC has offered to pay a 50% advance dividend on uninsured deposits. Historically, depositors receive 70%–80% of their uninsured deposits after the sale of a failed bank's assets, but that is never guaranteed.

For more information on FDIC coverage, please refer to FDIC's comprehensive guide, [Your Insured Deposits](#) .

## Important Disclosures

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