

The Sky is Falling! Are Your Deposits Safe? By David Walters

As a Banker, I am asked daily about the safety of customer deposits and how to better protect them. When I started writing this article, the old standard of \$100,000 of FDIC insurance per account name, per bank was in force. By the time I finished, Uncle Sam had stepped up his game in an effort to give confidence to the U.S. banking system by increasing FDIC coverage. This new standard, as well as several other considerations, provide ways to keep your deposits safe and help you and your money sleep better at night.

Increased FDIC Limits

For years, the maximum FDIC coverage was \$100,000 per named depositor, per bank. This has recently been increased to \$250,000 as part of the bailout plan. The government is now saying they will provide "full insurance coverage on all non-interest bearing deposit transaction accounts", regardless of the dollar amount. This applies to both business and personal accounts. This temporary guarantee will expire on 12/31/2009 and the program is available through participating financial institutions. In addition to bank deposit insurance, Uncle Sam has also agreed to insure moneymarket funds held by investment managers.

Is FDIC insurance enough?

The fact is we have no other choice but to depend on our government to support the FDIC program. It is either that or start stuffing mattresses and coffee cans with greenbacks. Whether you are using banks or moneymarket funds, you are still relying on the U.S. government to stand behind and protect your deposits. In the end, the FDIC is as good as it gets.

How much can I cover?

If your deposits are in a participating bank, the FDIC insurance covers 100% of all non-interest bearing deposit accounts. I suspect that most banks will participate, but you should ask yours to be sure. Interest bearing accounts are covered at \$250,000 per account name, per bank. To increase your coverage, you can add POD (Payable upon death) names to your personal accounts. This adds an additional \$250,000 for each child, relative or friend name added. If you setup a Trust account, each beneficiary also has \$250,000 of coverage if not already named on another account at that bank. As you can see, it is not difficult to cover several million dollars of deposits with 100% FDIC Insurance protection.

CDARS

If you have so much money in interest bearing deposit accounts that you exceed the coverage of your bank's limits, another opportunity is to use a program called CDARS. This stands for "Certificate of Deposit Account Registry System".

The CDARS program is used by Banks to place CD's in increments of just under \$100,000 each at multiple participating CDARS banks across the country. Maturities are available in increments from 4 weeks to 3 years each. There are fees to participate in this program but they are paid by your bank, not by you. One word of caution: while CDARS can substantially increase the amount of your insured deposits, the rates on CDARS CD's may be lower than if you had left the deposits in your Bank's own CD accounts.

You receive a single statement from your bank that details all your CD's including the banks in which they are located, the rates and maturities. Participating banks must meet certain financial criteria and you do receive 100% FDIC insurance on all CDARS CD's. There are early withdrawal penalties.

Sweep Accounts

Some people feel better investing directly in Government Paper, T-Bills, Treasuries, etc. If you are not a sophisticated investor who does this directly or through your investment manager, ask your bank about a "Sweep Account".

Some banks have arrangements to "Sweep" your money daily into a moneymarket fund that invests in various types of investments depending on which funds you choose. It can be a Government Fund that purchases only U.S. Government paper. These funds do pay interest daily and are only recently FDIC insured.

This is a good option if you need daily liquidity of your deposits, but still want interest earnings and like the idea of not having all your deposits in Bank accounts. The downside is the rates you earn in the sweep may be less than the bank's own deposit products. Banks generally discount the moneymarket fund rates so they can make a small spread for their efforts in lieu of being able to reinvest your money and make a profit on it.

Talk to your banker for more information and to see first-hand what is available for keeping your money safe and at work while keeping it out of mattresses and coffee cans.

About Our Guest Author

David Walters, Executive Vice President of 1st Pacific Bank of California, is a 33-year veteran of the San Diego Banking industry. In his various roles, David has underwritten and/or approved several billion dollars in loans during his career. 1st Pacific Bank of California was organized by a number of very successful San Diego County businesspersons and community leaders and is wholly owned by approximately 500 shareholders throughout the greater San Diego area.