When a Bank Fails

Facts for Depositors, Creditors and Borrowers*

* For purposes of this brochure, we will use the word "bank" to include all FDIC-insured financial institutions.

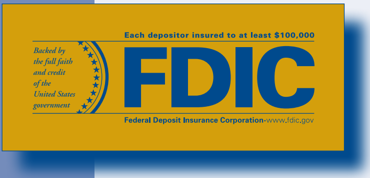
FDIC 75 YEARS
CONFIDENCE AND STABILITY

The Federal Deposit Insurance Corporation is an independent federal agency created in 1933 to promote public confidence and stability in the nation's banking system.

Throughout its history, the FDIC has provided bank customers with prompt access to their insured deposits whenever an FDIC-insured bank or savings association has failed.

In the FDIC's 75-year history, no customer has ever lost a single penny of insured deposits.

The FDIC official sign – posted at every insured bank and savings association across the country – is a **symbol of confidence** for Americans.



Customers know, when they see the FDIC official sign, that they will get back all of their insured deposits in the unlikely event their insured bank or savings association should fail.

What is a bank failure?

A bank failure is the closing of a bank by a federal or state banking regulatory agency. Generally, a bank is closed when it is unable to meet its obligations to depositors and others. This brochure deals with the failure of "insured banks." The term "insured bank" means a bank insured by FDIC, including banks chartered by the federal government as well as most banks chartered by the state governments. An insured bank must display an official FDIC sign at each teller window.

What is the FDIC's role in a bank failure?

In the event of a bank failure, the FDIC acts in two capacities. First, as the insurer of the bank's deposits, the FDIC pays insurance to the depositors up to the insurance limit. Second, the FDIC, as the "Receiver" of the failed bank, assumes the task of selling/collecting the assets of the failed bank and settling its debts, including claims for deposits in excess of the insured limit.

What is the purpose of FDIC deposit insurance?

The FDIC protects depositors' funds in the unlikely event of the financial failure of their bank or savings institution. FDIC deposit insurance covers the balance of each depositor's account, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured bank's closing.

What is the FDIC insurance amount?

The basic insurance amount is $100,000 per depositor, per insured bank. This includes principal and accrued interest up to a total of $100,000. The $100,000 amount applies to all depositors of an insured bank except for owners of certain retirement accounts, which are insured up to $250,000 per owner, per insured bank.

Deposits in separate branches of an insured bank are not separately insured. Deposits in one insured bank are insured separately from deposits in another insured bank.

Deposits maintained in different categories of legal ownership at the same bank can be separately insured. Therefore, it is possible to have deposits of more than $100,000 at one insured bank and still be fully insured. For more information on deposit insurance coverage, see the FDIC's brochure "Your Insured Deposits" which can be accessed at www.fdic.gov/deposit/deposits/insured

Who does the FDIC insure?

Any person or entity can have FDIC insurance on a deposit. A depositor does not have to be a citizen, or even a resident of the United States. FDIC insurance only protects depositors, although some depositors may also be creditors or shareholders of an insured bank.

What does FDIC deposit insurance cover?

FDIC insurance covers deposits received at an insured bank. Types of deposit products include checking, NOW, and savings accounts, money market deposit accounts (MMDA), and time deposits such as certificates of deposit (CDs).

What is the source of funding used by the FDIC to pay insured depositors of a failed bank?

The FDIC's deposit insurance fund consists of premiums already paid by insured banks and interest earnings on its investment portfolio of U.S.Treasury securities. No federal or state tax revenues are involved.

How am I notified when my bank has been closed?

The FDIC notifies each depositor in writing using the depositor's address on record with the bank. This notification is mailed immediately after the bank closes.

When the failed bank is acquired by another bank; the assuming bank also notifies the depositors. This notification usually is mailed with the first bank statement after the assumption.

Every effort also is made to inform the public through the news media, town meetings, and notices posted at the bank.

Payment to Depositors

How does the FDIC resolve a closed bank?

In the unlikely event of a bank failure, the FDIC acts quickly to protect insured depositors by arranging a sale to a healthy bank, or by paying depositors directly for their deposit accounts to the insured limit.

Purchase and Assumption Transaction
This is the preferred and most common method, under which a healthy bank assumes the insured deposits of the failed bank. Insured depositors of the failed bank immediately become depositors of the assuming bank and have access to their insured funds. The assuming bank may also purchase loans and other assets of the failed bank.

Deposit Payoff
When there is no open bank acquirer for the deposits, the FDIC will pay the depositor directly by check up to the insured balance in each account. Such payments usually begin within a few days after the bank closing.

When can I expect to receive my money?

Federal law requires the FDIC to make payments of insured deposits "as soon as possible" upon the failure of an insured institution. While every bank failure is unique, there are standard policies and procedures that the FDIC follows in making deposit insurance payments. It is the FDIC's goal to make deposit insurance payments within two business day of the failure of the insured institution.

Note: Some deposits that require supplemental documentation from the depositors, such as accounts linked to a formal written trust agreement, funds placed by a fiduciary on behalf of an owner such as a deposit broker or deposits placed by an administrator of an employee benefit plan may take a little longer. The timing of the completion of the deposit insurance determination is based solely on the depositor providing the documentation needed by the FDIC to determine insurance coverage.

What if the depositor placed money at the failed bank in the name of a trust?

In determining the insurance coverage for a deposit account opened in the name of a formal trust agreement, either revocable (commonly called a "living" or "family" trust) or an irrevocable trust, the FDIC may request the owner or trustee of the trust agreement to provide the FDIC a current copy of the trust document which the FDIC would review to confirm the applicable amount of deposit insurance coverage. The FDIC would review the trust agreement for the purpose of determining information such as the existence of beneficiaries, the kinship relationship of the owner to each beneficiary (for revocable trusts only) and the interests of each beneficiary under the trust when the owner(s) are deceased. The owner or trustee of either a formal revocable trust or an informal trust deposit may be required to complete a declaration of testamentary trust statement attesting to the relationships of the beneficiaries to the trust owner.

▶ For more information on the requirements for revocable living trust accounts or irrevocable trust accounts, see the FDIC's brochure "Your Insured Deposits" which can be accessed at www.fdic.gov/deposit/deposits/insured

What if the depositor placed money at the failed bank through a fiduciary?

A "fiduciary" is a person (or company) who serves as an agent on behalf of their client(s) in opening or purchasing a deposit (such as certificate of deposit) account at an insured bank. In order to determine the deposit insurance coverage for such deposits, the FDIC will typically need to obtain from the fiduciary supplemental information such as a list of the owner or owners of each deposit and the dollar interest of each owner in the deposit account. As soon as the fiduciary provides the needed information, the FDIC will pay insurance through one of the means previously described.

Although the FDIC will provide pass-through deposit insurance coverage to the actual owner(s) of a fiduciary deposit the FDIC does not pay the deposit insurance directly to the owners or customers. Rather, the FDIC will pay the deposit insurance coverage to the fiduciary. In turn, the fiduciary will be responsible for distributing the deposit insurance payments to their customers. The FDIC does not attempt to supervise the relationships between fiduciaries and customers or the distribution of funds from fiduciaries to customers. Customers are urged to contact their agents/brokers regarding the status of their investment funds, as the FDIC depends on those parties to supply the necessary information to determine insurance coverage.

It is also important to recognize that the FDIC is not responsible for the failure (for any reason) of a fiduciary or a custodian to:

1. **actually establish a deposit account on your behalf in an FDIC insured institution**
2. **maintain proper documentation in support of a deposit account that is be made on your behalf**
3. **the opening of a deposit account on your behalf that results in uninsured funds.**

For more information on the requirements for fiduciary accounts, see the FDIC's brochure "Your Insured Deposits" which can be accessed at www.fdic.gov/deposit/deposits/insured

The FDIC offers a reference guide to deposit brokers acting as agents for their investor clientele. This site outlines the FDIC's policies and procedures that must be followed by deposit brokers when filing for pass-through insurance coverage on custodial accounts deposited in a failed FDIC Insured Institution, which can be accessed at www.fdic.gov/deposit/deposits/brokers

How does a bank closing affect interest accruing on my deposits?

The FDIC's insurance coverage includes principal and interest through the date of the bank failure up to applicable insurance limit for each deposit. The accrual of interest ceases on all accounts once the bank is closed. If an open bank acquires deposits from the failed bank, the acquiring bank becomes responsible for re-establishing interest rates and beginning the accrual of interest after the date of the failure of the bank. The acquiring bank may change the interest rate on the acquired deposits, but the depositor may withdraw their insured funds without penalty if they chose to do so. If no acquiring bank is found for the deposits and the FDIC pays the depositors directly for their insured amounts, interest does not accrue past the date of failure.

What happens to my direct deposits if my bank closes?

If the failed bank is acquired, all direct deposits, including Social Security payments, will automatically be re-directed to the deposit accounts at the acquiring bank.

If there is no acquiring bank, the FDIC typically attempts to find a nearby bank to take over the direct deposit function temporarily, to make Social Security and other government annuity payments available to the customers. Specific information about any changes in the payment of direct deposits will be made available at the office locations of the failed bank.

What happens to checks and automatic payments that have not cleared an account before my bank is closed?

When the failed bank's deposits are assumed by an open bank, some or all of the offices typically reopen the next business day and there is usually no interruption in the processing of checks drawn on the failed bank. An exception to this procedure may include checks that were drawn against a deposit account that has been determined to be uninsured or an account that the deposit insurance determination is pending.

In a payoff, however, any outstanding transactions or checks presented after the bank has closed cannot be paid or charged against the account. The FDIC needs to freeze all deposit accounts at the time the bank is closed to quickly pay the depositors for the insured deposit balances in their accounts. Any outstanding checks or payment requests presented after the bank failure will be returned unpaid and will be marked to indicate that the bank is closed. This does not reflect on your credit standing. However, it is your responsibility to make other funds available to creditors who receive checks that were returned and did not clear your deposit account because of the bank closing.

Can I continue to use my checks and deposit slips at the new bank?

If there is an acquiring bank, it will accept the checks and deposit slips of the failed bank for a short time. You will receive information about new checks and deposit slips from the acquiring bank.

When can I have access to my safe deposit box?

When the failed bank's deposits are assumed by a healthy bank, the branch offices usually reopen the next business day. At that time, you will have access to your safe deposit boxes. In the event of a depositor payoff, the FDIC will send a letter to you informing you of the closing. The letter will instruct you on how you can remove the contents of your box. Access to the safe deposit boxes is typically granted to the safe deposit holders the next business day after the closure.

If I have more than $100,000 in a closed bank and I am paid $100,000 by the FDIC, what happens to the amount in excess of $100,000?

If for example, a depositor has only a single account with a balance of $105,000, he or she would be paid $100,000 through FDIC insurance and would receive a claim against the estate of the closed bank for the remaining $5,000 which is not insured. The depositor would be given a Receiver's Certificate as proof of this claim and would receive payments as the assets of the bank are liquidated. Deposit accounts are insured by ownership capacity. Certain deposits (e.g., trust accounts, certain retirement accounts, joint accounts, government accounts, and employee benefit plan accounts) may be fully insured in excess of $100,000 if the specific requirements for the ownership category are met.

▶ You can obtain additional information about deposit insurance coverage amounts from the FDIC web site www.fdic.gov/deposit/deposits

General Creditors

How will general creditors be notified of the closing?

The FDIC will send prompt notice of the closing to all trade creditors, employees, taxing entities, and any other creditors who may be owed money by the failed bank. The FDIC will also publish notices in local newspapers for several months after the failure.

How do I file a claim as a general creditor?

The notice that creditors receive will include instructions and the appropriate forms for filing a claim against the receivership. Documentation of the claim is required and must be submitted in a timely manner. The notice will provide a deadline by which all claims must be filed. Most general creditor claims will be acknowledged or denied by the FDIC within 180 days. A creditor will receive a Receiver's Certificate in the amount of the claim and may receive payments from the receivership as the assets are liquidated.

Priority of Payments and Timing

How quickly will the Receiver make payments on Receiver's Certificates?

By law, after insured depositors are paid, uninsured depositors are paid next, followed by general creditors and then stockholders. In most cases, general creditors and stockholders realize little or no recovery. Payments of uninsured funds only, called dividends, depend on the net recovered proceeds from the liquidation of the bank's assets and the payment of bank liabilities according to federal statute. While fully insured deposits are paid promptly after the failure of the bank, the disbursements of uninsured funds may take place over several years based on the timing in the liquidation of the failed bank assets. The dividend payment history for all failed banks closed since October 1, 2000 is available at http://www.fdic.gov/bank/individual/failed/banklist.html.

Borrowers

What happens to my loan now that my bank has failed?

Either the FDIC sold your loan at closing or the FDIC has retained it temporarily. In either case, your obligation to pay has not changed. Within a few days after the closure, you will be notified by the FDIC, and by the purchaser, as to where to send future payments.

In the case of a delinquent loan, the FDIC will "set off" the loan against the borrower's deposits (if any) before paying deposit insurance. In the case of a non-delinquent loan, the depositor might elect to "set off" the loan against his/her deposits in order to receive full value for any uninsured funds (i.e., funds in excess of the $100,000 insurance limit). In either case, no "offset" is possible unless the obligations are "mutual"– meaning that the borrower and the depositor must be the same person or legal entity acting in the same legal capacity.

What happens if the FDIC sells my loan?

Loans are negotiable instruments that are routinely sold in the financial markets. When a loan is sold, the borrower retains all the rights and obligations associated with the note. The borrower will be notified by the new holder of the note and given payment instructions.

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More Information

About bank closing activities	For more information on individual bank closings, how accounts and loans are affected when a bank fails, how to claim unclaimed funds from bank failures, and how to file a claim or obtain a lien release, go to: www.fdic.gov/bank/individual/failed
About deposit insurance coverage	Read "Your Insured Deposits" and other deposit insurance information at: www.fdic.gov/deposit/deposits/insured
Calculate your insurance coverage	Use the FDIC's Electronic Deposit Insurance Estimator at: www2.fdic.gov/edie
Call toll free	**1-877-ASK-FDIC (1-877-275-3342)** From 8 am until 8 pm (Eastern Time) Monday through Friday Hearing Impaired Line: **1-800-925-4618**
Email questions	Use the FDIC's on-line **Customer Assistance Form** at: **www2.fdic.gov/STARSMAIL**
Mail questions	**Federal Deposit Insurance Corporation** **Attn: Deposit Insurance Outreach** **550 17th Street, NW** **Washington, DC 20429-9990**

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