Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-99-2008
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DEPOSIT INSURANCE COVERAGE

Changes to FDIC Deposit Insurance Rules for Revocable Trust Accounts

Summary: The FDIC has adopted an interim regulation simplifying the rules for insuring revocable trust accounts − commonly known as *payable-on-death accounts* and *living trust accounts.* The new rules are easier to understand and apply, and provide at least as much coverage as the former rules for revocable trust accounts. The revised rules take effect today and apply to all existing and future revocable trust accounts at FDIC-insured institutions. The FDIC welcomes comments on the interim rule for 60 days after its publication in the *Federal Register*.

Distribution:
All FDIC-Insured Institutions

Suggested Routing:
Chief Executive Office
Head of Deposit & Branch Operations
Compliance Officer
Training Officer

Related Topics:
FDIC Deposit Insurance Regulations 12 C.F.R. Part 330

Attachment:
Draft *Federal Register* Notice

Contact:
FDIC Call Center at 1-877-275-3342

Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2008/index.html.

To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/fil.html.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights:

Under the interim rule:

- The concept of "qualifying" beneficiaries based on certain family relationships has been eliminated.
- For each account owner with combined revocable trust deposit balances of $1.25 million or less at a single bank, the maximum coverage will be determined by multiplying the number of different beneficiaries by $250,000. (This will apply to the vast majority of revocable trust accounts.)
- For each account owner with combined revocable trust deposit balances of more than $1.25 million and more than five named beneficiaries, coverage is the *greater of* $1.25 million or, as before, the aggregate of all beneficiaries' proportional interests in the trust deposits, limited to $250,000 per beneficiary.
- In determining coverage for living trust accounts, a life estate interest is valued at $250,000.
- Irrevocable trusts that spring from a revocable trust upon the death of the revocable trust owner will continue to be insured under the revocable trust rules.

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The FDIC Board of Directors has issued an interim rule to simplify the coverage rules on revocable trust accounts without decreasing coverage. The FDIC believes the interim rule will make the regulation easier for depositors and bankers to understand and apply. It will also result in more rapid deposit insurance determinations following bank closings and will help strengthen public confidence in the nation's banking system.

Background

Two types of revocable trust accounts are insured under the FDIC's coverage rules: informal trust accounts and formal trust accounts. Informal trust accounts consist of a signature card on which the owner designates the names of beneficiaries to whom the funds in the account will pass upon the owner's death. These are the most common type of revocable trust accounts and generally are referred to as "payable-on-death" (POD) accounts. The other type of revocable trust accounts are accounts established in connection with formal revocable trusts. Formal revocable trusts are created for estate planning purposes and are referred to as living or family trusts.

The FDIC's former rules stated that all revocable trust accounts (both POD accounts and living trust accounts) were insured up to $250,000 for the interest of each "qualifying beneficiary" designated by the owner of the account. Qualifying beneficiaries were defined as the owner's spouse, children, grandchildren, parents, and siblings.

Summary of the Interim Rule

The interim rule eliminates the concept of *qualifying beneficiaries*. The relationship between the trust owner and the beneficiaries no longer affects deposit insurance coverage. Under the interim rule, coverage is based on the existence of *any* beneficiary named in the revocable trust, as long as the beneficiary is an individual, a charity, or another nonprofit organization.

For revocable trust account owners with balances of $1.25 million or less in one FDIC-insured institution, the interim rule eliminates the former requirement that based coverage on the proportional interest of each beneficiary in the trust deposit. For each trust owner with combined revocable trust account deposits of $1.25 million or less at a single bank, the maximum coverage will be determined by multiplying the number of different beneficiaries by $250,000. (This will apply to the vast majority of revocable trust account owners.) Note that for revocable trust deposits that are jointly owned, the $1.25 million threshold would apply to each co-owner's share of all revocable trust deposits at one FDIC-insured bank.

For revocable trust accounts where the owner has more than $1.25 million in one FDIC-insured institution and has named more than five different beneficiaries in the revocable trust(s), the maximum coverage is the greater of either $1.25 million or the aggregate amount of all the beneficiaries' proportional interests in the revocable trust(s), limited to $250,000 per beneficiary. (The impact of the interim rule results in no depositor being insured for an amount less than he or she would have been entitled to under the former revocable trust account rules).

In addition, the FDIC reminds insured institutions that the rules for coverage of informal revocable trust (payable on death) accounts require that the names of all trust beneficiaries be disclosed in the institution's account records. The FDIC also encourages bank customers to make certain that the names of living trust beneficiaries are included in the bank's account records.

The attached draft *Federal Register* notice provides details on the rule changes. Once the interim rule is published in the *Federal Register*, the FDIC will distribute a copy of that document in a follow-up FIL and highlight the due date for comments.

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