*Presentation slides have been updated for December 05, 2008 seminar**

FDIC's National Telephone Conference

"What I need to know to calculate FDIC deposit insurance coverage!"

Remaining Sessions

December 05, 2008 December 10, 2008 December 19, 2008

***Important Note! "The information in the following slides has been updated to include these recent changes:**

1. **"New" revocable trust rules approved on September 26, 2008,**
2. **The temporary increase of the "SMDIA" or "standard maximum deposit insurance amount" from $100,000 to $250,000 effective October 03, 2008" through December 31, 2009,**
3. **"New" regulatory change approved On October 10, 2008 for calculating "P&I" deposits,**
4. **The temporary changes approved effective October 14, 2008 through December 31, 2009 for "unlimited" deposit insurance coverage for non-interest bearing transaction accounts.**
5. **Modification effective November 21, 2008 for the temporary rule of "unlimited" deposit insurance coverage through 12/31/09 for non-interest bearing transaction accounts will also include "IOLTA" deposits and "NOW" account deposits that earn .5% or less.**

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"What I need to know to calculate FDIC deposit insurance coverage!"

Today's Speaker

Martin Becker
Senior Deposit Insurance Specialist

Outline

Overview: The recent rule changes

Part 1 – Fundamentals - What does FDIC insure?

Part 2 – What are the different options to maximize my client's deposit insurance coverage?

Deposit Insurance Ownership Categories

- Individuals
- Businesses/Organizations
- Government Entities/Public Units
- Mortgage Servicing Escrow Accounts
- Non-interest Bearing Transaction Accounts

Part 3 - Requirements for the ten deposit insurance "Categories"

Part 4 - Additional Fundamentals

Part 5 - Your Questions

Overview: What has changed in the last few months?

New deposit insurance rules:

- Approved September 26, 2008:
  - The FDIC Board of Directors approved effective September 26, 2008 permanent changes to the regulations pertaining to the calculation of deposit insurance coverage for revocable trust deposits including an expanded definition for "eligible beneficiaries."
- Approved October 03, 2008
  - Congress passed a temporary increase of the "SMDIA" or "standard maximum deposit insurance amount" from $100,000 to $250,000 effective October 03, 2008 through December 31, 2009.
- Approved On October 10, 2008
  - The FDIC Board of Directors approved effective October 10, 2008 a permanent rule change for calculating deposit insurance coverage for "P&I" payments deposited into mortgage servicing escrow accounts.
- Approved October 14, 2008
  - The FDIC Board of Directors approved a temporary change effective October 14, 2008 through December 31, 2009 that allows for "participating" banks the ability to offer "unlimited" deposit insurance coverage for non-interest bearing transaction accounts.
- Approved November 21, 2008
  - The FDIC Board of Directors modified the rule approved on October 14, 2008 to also include "IOLTA" deposits and "NOW" account deposits that earn .05% or less. These deposits will also have "unlimited" deposit insurance coverage if offered by a "participating" bank.

What is insured by FDIC - Deposits Only!

"The FDIC insures deposits only! Types of "deposits" include":

- Checking Accounts
- NOW Accounts
- Savings Accounts
- Certificates of Deposit (CDs)
- Money Market Deposit Accounts (MMDA)

What is not insured by FDIC - Non-Deposit Products

"These products are not FDIC insured even if purchased through an FDIC insured bank!"

- Stocks, Bonds, Municipal Bonds and Other Securities
- Mutual Funds (money market mutual funds and stock, bond, or other security mutual funds)
- Annuities
- Insurance Products (automobile and life insurance)
- U.S. Treasury Bills, Bonds or Notes
- Safe Deposit Box Contents

The Basic Coverage Limits

Basic Coverage for all Depositors:

Until December 31, 2009: Under 12 C.F.R. 330.1(n) - Standard maximum deposit insurance amount, referred to as "the SMDIA“ hereafter, means $250,000 adjusted pursuant to subparagraph (F) of section 11(a)(1) of the FDI Act (12 U.S.C. 1821(a)(1)(F)).

- Change in the “SMDIA” from $100,000 to up to $250,000 per depositor including principal and accrued interest. This increase is effective immediately, but ***expires on December 31, 2009***. Under the new law, as of January 01, 2010 the “SMDIA” returns to up to $100,000.
- The category “*Certain* Retirement Accounts” remains at $250,000 after the expiration of the law on December 31, 2009.

Important!

Please remember the December 31, 2009 “expiration date” when opening time deposits. Based on the current law, time deposits with a maturity date after December 31, 2009 will revert back to the old rules of $100,000 per depositor after December 31, 2009.

The Basic Coverage Limits

"Deposit insurance coverage is calculated per bank"

"Can I deposit funds in different branches of the same bank?"

or

"How about different branches of the same bank that is located in another state?"

Answer:

"Funds placed in separately chartered banks are separately insured – not the branch offices of a bank with the same charter number!"

Calculating the deposit insurance limit

You must add the principal amount and any accrued interest together in determining deposit insurance coverage.

Jane Smith	**Balance**
Principal	$ 248,000
Interest	$ 3,000
Total	**$ 251,000**
Insured	**$ 250,000**
Uninsured	**$ 1,000**

Part 2 – What are the different options to insure my client?

Your clients want answers to the questions:

The two most asked questions by depositors!

"How much can I be insured for by the FDIC?"

"What are the different ways a depositor can be insured for in an FDIC insured institution?"

Three questions you need to always ask.

The three questions every "New Accounts" bank employee must ask and answer to calculate FDIC deposit insurance coverage:

1) ***Who owns the funds?***

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

3) ***Do they meet the requirements of that category?***

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Who Owns the Funds?

The basis of FDIC deposit insurance starts with determining the "ownership" of the deposit funds.

- ***"You cannot determine the amount of FDIC deposit insurance coverage without first determining who is the owner of the deposit funds!"***

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"What is a deposit insurance category?"

So, "What is a deposit insurance "category" and why is this important?"

A "category" also referred to as "right and capacity" in the deposit insurance regulations is a unique basis of ownership defined by either statue or by regulation that provides for separate FDIC deposit insurance coverage.

- In other words, think of a category as a set of rules that if your depositor can meet the rules for a specific category, then their deposits will be entitled to both of the following:
  1. Up to "SMDIA" amount of deposit insurance coverage that is provided for under the ownership category, and
  2. Separate coverage from funds that may be deposited under a different ownership category.

Remember! There are ten commonly used deposit insurance categories.

Who is owns the funds?

"Who is my depositor?"

The answer to this question is important because it determines the category or categories that the depositor may be eligible to use.

Group 1 – "Are my clients an individual or perhaps multiple individuals who own funds individually or jointly? Are they participants of a retirement or employee benefit plan? Are they someone looking to set up a trust deposit agreement?" (Categories 1 through 6)

Group 2 - "Are my clients the owner of a business entity such as a corporation, partnership or unincorporated entity?" (Category 7)

Group 3 - "Are my clients a governmental entity?" (Category 8)

Group 4 - "Is my client looking to establish a mortgage servicing escrow account for "P&I payments?" (Category 9)

Group 5 - "Are the funds being deposited into a non-interest bearing transaction account which allows for unlimited transactions?" (Category 10)

The Deposit Insurance Categories

Owner = Individual(s) or Trust

- Category 1 - SINGLE
- Category 2 - JOINT
- Category 3 - REVOCABLE TRUST
- Category 4 - IRREVOCABLE TRUST
- Category 5 - CERTAIN RETIREMENT
- Category 6 - EMPLOYEE BENEFIT PLAN

Owner = Business Organizations

- Category 7 - CORPORATION PARTNERSHIP UNINCORPORATED ASSOCIATIONS

Owner = Individual or Business

- Category 9 - P&I

Owner = Individual or Business

- Category 10 - NON-INTEREST BEARING

Owner = Government Entity or Political Subdivision

- Category 8 -- GOVERNMENT

How does a depositor qualify for coverage under a category?

Owner = Individual(s) or Trust

Category 1 – SINGLE	Category 2 – JOINT	Category 3– REVOCABLE TRUST
Category 4 – IRREVOCABLE TRUST	Category 5 - CERTAIN RETIREMENT ACCOUNTS	Category 6 - EMPLOYEE BENEFIT PLANS

Category 1 - The Single Account Category

Requirements:

Category 1 - Single accounts – "The deposit must simply be owned by a *natural person*"

Common misunderstanding - Category 1 - Single account deposits:

- Sole Proprietorship Deposits:
  - Funds owned by a *Sole Proprietorship or DBA* are insured in this category (not in *Category 7 – Business Organizations*)
- Decedent Deposits:
  - Accounts established for a *deceased person* (i.e. Decedent's Account) are insured in this category (not *Category 3 - Revocable Trusts*)

Category 1 - The Single Account Category

Deposit Insurance Coverage:

NEW! ***"A depositor is now insured for up to $250,000 for all Category 1 – Single Account deposits.***

Important!

1. **Common Misconception**: If you have a single owner and you attempt to name beneficiaries, the deposit will first be analyzed as a ***Category 3 - Revocable Trusts*** deposit!

2. ***Category 1 – Single Account*** is also the default category for depositors who do not meet the requirements of another category!

Jane Smith's Category 1 - Single Accounts

Account 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**
Uninsured Amount	**$ 75,000**

Category 2 – The Joint Ownership Category

Requirements:

- Deposits owned by ***two*** or more ***natural persons***
  - Each co-owner must be a natural person. No co-ownership with any business or trust.
- Each co-owner must sign signature card (CD exception)
- Each co-owner must have equal withdrawal rights
- FDIC assumes that all co-owners' shares are equal unless the deposit account records state otherwise.

Category 2 – The Joint Ownership Category

Deposit Insurance Coverage:

<u>NEW!</u> *If all requirements are met, then the amount of deposit insurance coverage is up to $250,000 for each owner of all* ***Category 2 – Joint Account*** *deposits*

Important!

1. Deposit insurance is ***<u>not</u>*** increased by:
   - rearranging the names listed on multiple joint accounts,
   - substituting "and" for "or" in account titles for multiple accounts, or
   - using different social security numbers on multiple joint accounts

2. **Common misconception**: If you have co-owned deposits and you attempt to name beneficiaries, the deposit will first be analyzed as a ***Category 3 – Revocable Trust*** deposit!

3. If a depositor establishes multiple joint accounts, the owner's share in all joint accounts are added together and insured up to $250,000.

Example: Category 2 Joint Ownership– A Depositor has Ownership in Multiple Joint Accounts

Account	Account Title	Balance
# 1	Jane Smith and Andrew Smith	$ 400,000
# 2	Jane Smith and Harry Jones	$ 200,000
Total		**$ 600,000**

Example: Category 2 Joint Ownership – A Depositor has Ownership in Multiple Joint Accounts

	Jane's Interest	Andrew's Interest	Harry's Interest	Total Balance
Account 1	$200,000	$200,000		$400,000
Account 2	$100,000		$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			$ 50,000

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Category 3 - Revocable Trust Accounts

What is a revocable trust account?

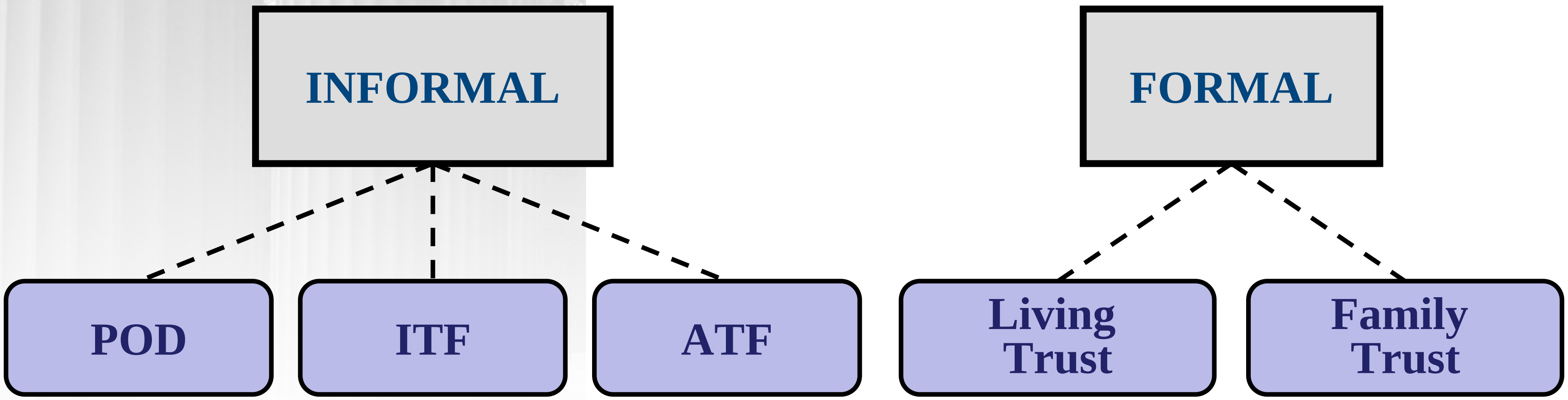
- A deposit account that indicates an intention that the funds will belong to one or more named beneficiaries upon the owner's death.

How is a revocable trust deposit account established?

- For an informal trust, ***testamentary language*** must be in the account's title (i.e., POD, ITF, ATF) and the beneficiaries must be named in the bank records.

- For a formal trust, the account title must reflect that the funds are held pursuant to a formal revocable trust.

Category 3 – Types of Revocable Trust Deposits



"Payable-on-Death" (POD) accounts or other similar terms such as "In-Trust-For" (ITF) or "As-Trustee-For" (ATF).

Account must be titled in the name of the formal trust.

Category 3 – Yes, POD must be in the "Account Title"

"Does POD or a similar term conveying testamentary intent have to be in the account title?" YES!

The disclosure requirements for payable on death accounts are found in 12 C.F.R. Part 330.10(b), which states:

"b) Required intention. The required intention in paragraph (a) of this section that upon the owner's death the funds shall belong to one or more qualifying beneficiaries ***must be manifested in the title of the account*** using commonly accepted terms such as, but not limited to, "in trust for," "as trustee for," "payable-on-death to," or any acronym therefor. In addition, the beneficiaries must be specifically named in the deposit account records of the insured depository institution."

So,

1. POD (or another similar term) must be in the title of the bank records and;
2. the specific names of the beneficiaries must be in the bank records, but the specific names do not necessarily have to also be in account title.

This requirement is met if either a bank record (such as a CD or signature card) has the following in the title or if the titling of the accounts in the bank's name and address electronic file uses the following :

Example #1: John Smith and Mary Smith, POD
Example #2: John Smith and Mary Smith
POD

Important! Checking or marking a box on a bank document labeled "POD" or a "similar term" does not meet the regulatory requirement described above under 12 C.F.R. Part 330.10(b)

Category 3 – Revocable Trust Deposits

How is deposit insurance calculated for Category 3 Revocable Trust deposits?

Effective September 26, 2008, there are changes to the revocable trust rules!

- The owner and beneficiary ***no longer*** must meet the kinship requirement that each beneficiary must be related to the owner from one the following five groups: parent, sibling, spouse, child, or grandchild.

Change #1 -- New rules about ***"Who 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)**
- **A non-profit organization (must be valid under IRS rules)**

Who or what is not allowed as a beneficiary! – pets, deceased persons, the naming of any object or entity that does not meet the requirements above.

What about deposits opened "POD to the Trust?"

If a deposit is titled, as an example - ***"John Smith POD to the John Smith Revocable Trust***," then the FDIC will assume the depositor is simply attempting to insure the deposit based on the terms of the trust agreement, (i.e. who are the named beneficiaries and the amount to be distributed). The funds will no longer be insured as a reversion or default to the owner's Category 1 - Single category.

Category 3 – Revocable Trust Deposits

Effective September 26, 2008 there are changes to the revocable trust rules!

Change #2 – ***The rules are different depending on the number of beneficiaries named by an owner and the amount of the deposit.***

What is the rule if -

1. ***The owner names five or fewer beneficiaries and the total deposit(s) are $1,250,000 or less.***

   If the owner has named ***five or fewer*** beneficiaries and the total deposits allocated to all of the beneficiaries combined is ***$1,250,000 or less***, then the amount of deposit insurance coverage is equal to:

   - Up to ***$250,000 times the number of 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 established in each bank.
   - ***The result is the same as above even if the owner has allocated different or unequal percentages or amounts to multiple beneficiaries.*** The FDIC will still simply allocate up to $250,000 times the number of beneficiaries named by an owner in calculating deposit insurance coverage.

Category 3 – Revocable Trust Deposits

Effective September 26, 2008 there are changes to the revocable trust rules! *(continued)*

Change #2 – ***The rules are different depending on the number of beneficiaries named by an owner and the amount of the deposit.***

What if -

2. ***The owner names six or more beneficiaries and the deposit is greater than $1,250,000:***

- If the owner has named ***six or more*** beneficiaries and the total allocated to all the beneficiaries is ***$1,250,000 or more***, then the amount of deposit insurance coverage is ***$250,000 times the number of beneficiaries*** named by the owner for all of revocable trust deposits the owner has established in each bank, ***provided that the allocation to each and every beneficiary is exactly the same; that is, equal.***

- If the owner is attempting to insure more than $1,250,000 and has named ***six or more*** beneficiaries under one or more revocable trust deposits, but has ***unequal percentages or dollar amount allocations to the beneficiaries***, then the FDIC will compute the deposit insurance coverage based on the ***old rules***.

If under the old rules the calculation would result in deposit insurance coverage of less than $1,250,000, the FDIC under the new rule will allow the depositor to deposit up to $1,250,000 and would fully insure the deposit.

Information you need to obtain to calculate deposit insurance coverage for *formal* revocable trust agreements

The six questions that must be answered before a depositor can determine FDIC insurance coverage for a formal revocable trust account are:

1. Who are the owners of the trust? (This question remains unchanged.)

- *The owners are commonly referred to as a* ***Grantor, Trustor or Settlor****.* ***Forget*** *the* ***trustee and successor trustee designations*** *– They are irrelevant in the determination of deposit insurance coverage !!*

2. Who are the primary beneficiaries upon the death of the owners? (This question also remains unchanged.)

- *At the time an insured depository institution fails, the beneficiary must be entitled to his or her interest in the trust assets upon the grantor's death and that ownership interest does not depend upon the death of another trust beneficiary. Contingent beneficiaries do not count.*

3. Are the primary beneficiaries "eligible" beneficiaries? (This question has significantly changed under the new rule.)

- *Effective immediately FDIC* ***no longer*** *will look to see if we have a qualifying beneficiary that is a parent, sibling, spouse, child, or grandchild. It is necessary that the beneficiary is a natural person, a charity or non-profit organization.*

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Information you need to obtain to calculate deposit insurance coverage for *formal* revocable trust agreements

The six questions that must be answered before a depositor can determine FDIC insurance coverage for a formal revocable trust account are:

4. **Are all the owners and primary beneficiaries named in the trust living?** (This question also remains unchanged.)

   - *The death of either an owner(s) or beneficiary(ies) can impact the calculation of deposit insurance coverage.*

5. **What is the dollar amount or percentage interest each owner has allocated to each primary beneficiary?** (Rule changed for deposits under $1,250,000)

   - *For formal revocable trust deposits of $1,250,000 or less this question is now **irrelevant**. If the depositor has six or more beneficiaries and is looking to insure more than $1,250,000, we must look at the allocation to each beneficiary. Note that life estate beneficiary interests are now allowed up to $250,000 in deposit insurance coverage.*

6. **Is the trust properly identified in the bank's records?** (This question also remains unchanged.)

   - *This is simple. Ideally the name on the trust agreement is used.*

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Category 3 – Revocable Trust Deposits

Procedures for applying the new rule (as of September 26, 2008):

Step 1: **Do we have one or two owners?**

Step 2: **Are we attempting to insure more than $1,250,000 per owner or less than $1,250,000 per owner?**

Step 3: **Does each beneficiary meet the definition of an eligible beneficiary?**

Step 4: **Assuming all eligible beneficiaries and the owner is attempting to insure *$1,250,000 or less,* then based on the number of beneficiaries named by the owner (regardless of the dollar or percentage allocation) the deposit insurance for Category 3 - Revocable trusts is calculated as follows:**

For each owner naming

1 beneficiary = up to $250,000 in deposit insurance coverage
2 beneficiaries = up to $500,000 in deposit insurance coverage
3 beneficiaries = up to $750,000 in deposit insurance coverage
4 beneficiaries = up to $1,000,000 in deposit insurance coverage
5 beneficiaries = up to $1,250,000 in deposit insurance coverage

Note: If there are two owners the amount of coverage is calculated using: "(# of owners) times (# of beneficiaries) times $250,000 = Insured amount"

Category 3 – Revocable Trust Deposits

Step 4: Assuming we have all eligible beneficiaries, the owner is attempting to insure ***more than $1,250,000 with six or more named beneficiaries and*** if the percentage allocation to each and every beneficiary is ***equal,*** then the amount of deposit insurance coverage is as follows:

Must be Equal

6 beneficiaries = up to $1,500,000 in deposit insurance coverage
7 beneficiaries = up to $1,750,000 in deposit insurance coverage
8 beneficiaries = up to $2,000,000 in deposit insurance coverage
9 beneficiaries = up to $2,250,000 in deposit insurance coverage
10 beneficiaries = up to $2,500,000 in deposit insurance coverage
11+ = add up to $250,000 for each additional beneficiary

Step 5: Assuming ***more than $1,250,000 with six or more beneficiaries named, with an unequal*** percentage allocation to the beneficiaries, then the old deposit insurance rules apply. If under the old rules the calculation would result in deposit insurance coverage of less than $1,250,000, the FDIC under the new rule will allow the depositor to deposit up to $1,250,000 and be fully insured.

"If there are at least five beneficiaries then the coverage is a minimum of $1,250,000 with one owner and $2,500,000 with two owners"

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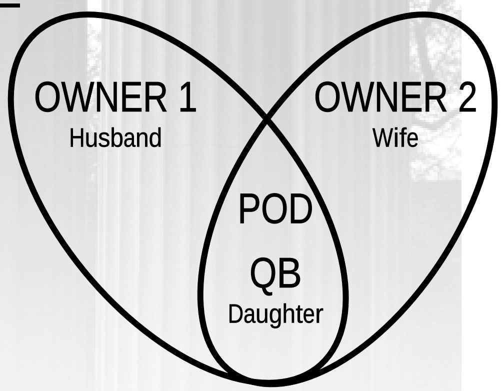
Common misconceptions about revocable trust deposits

Example 1

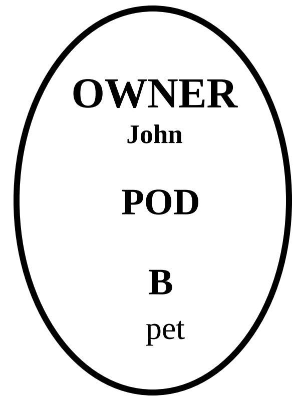


Facts:
"Husband and wife POD daughter"

What is the maximum insured amount for this deposit?

Answer = $500,000 not 750,000. The funds would be insured under Category 3 – Revocable Trusts

Example 2



Facts:
"John POD "FIDO" (pet)

What is the maximum insured amount for this deposit?

Answer = $250,000 not 500,000 John's deposit would be insured under Category 1 – Single Account Category

Category 3 – Revocable Trust Deposits

Applying the rules to formal revocable trust deposits:

Example 1:

Facts: John is the owner of a living trust. The trust provides the following when John dies:

Beneficiary 1 = 1/6 to Sally,
Beneficiary 2 = 1/6 to James,
Beneficiary 3 = 1/6 to Amy,
Beneficiary 4 = 1/6 to the ABC Charity (which meets IRS qualifications as a legitimate charity)
Beneficiary 5 = 1/6 to the college John graduated from.
Beneficiary 6 = 1/6 to XYZ non-profit

Account Balance = $1,500,000

Can John open this deposit at your bank and be fully insured for $1,500,000? YES!

Since every eligible beneficiary is to receive an equal share the rule allows six beneficiaries times $250,000 = $1,500,000 in deposit insurance coverage

Category 3 – Revocable Trust Deposits

Applying the rules to formal revocable trust deposits:

Example 2:

Facts: John is the owner of a living trust. The trust provides the following beneficiaries will receive distributions when John dies:

Beneficiary 1 = $	**400,000**	**to Sally**
Beneficiary 2 = $	**50,000**	**to James**
Beneficiary 3 = $	**200,000**	**to Amy**
Beneficiary 4 = $	**300,000**	**to the ABC Charity (which meets IRS qualifications as a legitimate charity)**
Beneficiary 5 = $	**300,000**	**XYZ college – IRS Qualifying non-profit org.**

Balance = $1,250,000

Can John open this deposit at your bank and be fully insured for $1,250,00? YES!

The DI calculation under new rule: Five beneficiaries times $250,000 = $1,250,000

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Category 3 – Revocable Trust Deposits

Applying the rules to formal revocable trust deposits:

Example 3:

Facts: John is the owner of a living trust. The trust provides the following when John dies:

Beneficiary 1 = $ 500,000 to Sally,
Beneficiary 2 = $ 150,000 to James,
Beneficiary 3 = $ 250,000 to Amy,
Beneficiary 4 = $ 225,000 to the ABC Charity, an IRS qualifying charity)
Beneficiary 5 = $ 175,000 to XYZ College, an IRS qualifying non-profit organization
Beneficiary 6 = $ 200,000 to "Good Deeds," an IRS qualifying non-profit foundation
---
Total = $1,500,000

Can John open this deposit at your bank and be fully insured for $1,500,000? No!
If $1,500,000 is deposited, then $1,250,000 is insured and $250,000 is uninsured because Sally's allocation of $500,000 creates $250,00 of uninsured funds.

What is the maximum DI coverage with 100% fully insured?: Calculation under old rule is $500,000/$1,500,000 = 33-1/3%. $250,000 is then divided by 33-1/3% = $750,000. The DI coverage is the greater of computing the amount allocated to each beneficiary under the old rule or $1,250,000. Therefore the coverage for this example is $1,250,000.

Reminder: If you have five or more eligible beneficiaries the coverage is at least $1,250,000 under the new rule.

Category 3 – Revocable Trust Deposits

Applying the rules to formal revocable trust deposits:

Example #4 **Facts:** John is the owner of a living trust. The trust provides the following when John dies:

Beneficiary 1 = $ 300,000 to Sally,
Beneficiary 2 = $ 150,000 to James,
Beneficiary 3 = $ 250,000 to Amy,
Beneficiary 4 = $ 225,000 to the ABC Charity, an IRS qualifying charity)
Beneficiary 5 = $ 275,000 to XYZ College, an IRS qualifying non-profit organization
Beneficiary 6 = $ 200,000 to "Good Deeds," an IRS qualifying non-profit foundation
Beneficiary 7 = $ 150,000 to Joe
Beneficiary 8 = $ 150,000 to Chris
Beneficiary 9 = $ 175,000 to Kate
Beneficiary 10 = $ 125,000 to Kathy

Total = $2,000,000

Can John open this deposit at your bank and be fully insured for $2,000,000? No!
If $2,000,000 is deposited, then $1,925,000 is insured and $75,000 is uninsured ($50,000 to Sally and $25,000 to XYZ College).

What is maximum DI coverage with 100% fully insured?: Calculation under old rule is $300,000/$2,000,000 = 15%. $250,000 is then divided by 15% = $1,666,666. Why do we use this number? Because 15% of $1,666,666 equals exactly $250,000 which is the most that can be insured as to any one beneficiary when there are ***FIVE or more beneficiaries named and we have to use the "old" deposit insurance trust rule.***

Calculation under new rule: The coverage is the greater of computing the amount using the old rule or $1,250,000. Therefore the maximum deposit insurance coverage using this example is $1,666,666.

Category 3 – Revocable Trust Deposits

Applying the rules to informal revocable trust deposits:

Example 1:

Account #1: John POD Mary with a balance	**= $350,000**
Account #2: John POD Sara with a balance	**= $ 50,000**

Total	**= $400,000**

Is this account fully insured? Yes, under the new rule remember with "one owner times two Beneficiaries (for up to $250,000 per beneficiary) = $400,000" and therefore the total of both accounts is fully insured because the combined balance is less than $500,000.

Example 2:

Account #1: John POD Mary with a balance	**= $350,000**
Account #2: John POD Sara with a balance	**= $175,000**

Total	**= $525,000**

***Is this account fully insured?* No!** The combined amount of $500,000 is insured with $25,000 uninsured. The calculation is one owner times two beneficiaries times $250,000 = $500,000.

Can I "revert or default" the uninsured $25,000 back to Category 1 Single Ownership if John has not used this category ? **NO!**

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Category 3 – Revocable Trust Deposits – Mixing of "informal" and "formal" trust deposits does not increase deposit insurance coverage!

Account #1		Account #2
Depositor with a POD account naming 3 eligible beneficiaries	**+**	**Depositor with a living trust account identifying the same 3 beneficiaries**
Account #1:		**Account #2:**
"David Smith POD Andy, Betty and Charlie"		"David Smith Revocable Trust" which names Andy, Betty and Charlie as sole beneficiaries.
Balance is $750,000		**Balance is $750,000**

You cannot establish both of these accounts and receive $1,500,000 of deposit insurance! No "double dipping" rule! If you have an owner naming three beneficiaries on a POD for $750,000 you cannot get an additional $750,000 for that owner naming the same beneficiaries under a trust agreement!

Category 4 - Irrevocable Trust Accounts

"Irrevocable" means that the grantor (person who created the trust) does not possess power to terminate or revoke trust.

- **An irrevocable trust may be created through:**
  - Death of grantor of revocable living trust
  - Execution or creation of an irrevocable trust agreement
  - Statute or court order
- **An irrevocable trust deposit must be linked to a written trust agreement.**
  - There is no "POD" or "ITF" option.
- **Deposit Insurance Coverage for Irrevocable trust deposits is usually no more than $250,000.**
  - Contingent interests as to the beneficiaries causes the total interests to be added together for up to $250,000.

Category 4 - Irrevocable Trust Accounts

Effective September 26, 2008!

New rule - When a revocable trust *deposit* converts to an irrevocable trust because of the death of the owner(s), the FDIC will continue to apply the original revocable trust coverage.

"In situations where the owner(s) of a trust agreement have died and the trust is now irrevocable (other than an AB trust situation), the deposit insurance coverage is still calculated based on Category 3 – Revocable Trust Account rules (assuming this will benefit the Depositor)."

Example:

Facts: The "John Smith Revocable Trust" names his wife with a life estate interest and his two children as remainder beneficiaries. The trust deposit is fully funded and fully insured to the maximum allowed of $750,000. John died a year ago and the trust became irrevocable. The trust allows for his wife to use 100% of the assets during her life time if needed. What is the maximum deposit insurance coverage allowed under today's rules?

Answer: ***Under the "new" rules the coverage will remain at $750,000 instead of dropping to $250,000.***

Category 5 - *Certain* Retirement Accounts

Requirements:

1. **Deposits must meet the requirements provided for by the statute.**
   - **Must be self-directed. The participant must direct the investment of their interest in the plan assets. If the investment decision is made by the "plan administrator" then the deposit insurance coverage is calculated using the rules under Category 6 – Employee Benefit Plan Accounts**
2. **All "defined benefit plans" are excluded from this category.**
   - The most common type of deposit under this category is an Individual Retirement Account (IRA)

Please Remember - Deposit insurance coverage will remain up to $250,000 after 12/31/09. Deposit insurance will not drop back to $100,00 for Category 5 – Certain Retirement Account deposits after 12/31/09.

Common misunderstanding! For deposits under this category like IRAs, the deposit insurance coverage <u>cannot and does not increase</u> for any beneficiaries who may be named in the bank records.

Category 6 - Employee Benefit Plan Accounts

Definition:

Employee Benefit Plans that ***do not*** meet the definition of self-directed:

– Defined contribution plans, including profit-sharing plans and 401(k) plans that do not qualify as "self-directed" plans

– ***All*** defined benefit plans are insured under this category only

Deposit Insurance Coverage:

➢ **NEW!** Coverage is now increased from $100,000 up to $250,000 for each participant's non-contingent interest

– Breakeven formula is $250,000 divided by the participant with the largest percentage non-contingent ownership interest under the plan

Category 6 - Employee Benefit Plan Accounts

Account Title: *"Happy Pet Vet Clinic Defined Benefit Plan"*

Plan Participants	Share of Plan*
Dr. Todd	40%
Dr. Jones	30%
Tech Barnes	10%
Tech Evans	10%
Tech Cassidy	10%
Plan Totals	**100%**

***Assume the Actuary for the plan has determined these percentages represent the vested non-contingent share for each participant.**

Maximum Deposit Amount Eligible for Full Coverage - Formula

What is the maximum amount that can be deposited for this plan and have 100% of the deposit fully insured?

Maximum coverage per participant ("SMDIA")	**$250,000**
	Divided by
Largest participant interest is Dr. Todd with 40%	**.40**
Maximum deposit insurance amount eligible for full insurance coverage	**$625,000**

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Employee Benefit Plan Account Example

Account Title: Happy Pet Vet Clinic Defined Benefit Plan

Plan Account Balance: $ 625,000

Plan Participants	Share of Plan	Share of Deposit	Amount Insured	Amount Uninsured
Dr. Todd	40%	$ 250,000	$ 250,000	$ 0
Dr. Jones	30%	187,500	187,500	0
Tech Barnes	10%	62,500	62,500	0
Tech Cassidy	10%	62,500	62,500	0
Tech Evans	10%	62,500	62,500	0
Totals	**100%**	**$ 625,000**	**$ 625,000**	**$ 0**

Category 7 - Business/Organization Accounts

Definition:

1. Based on state law - must be a legally created:
   - Corporations (includes Subchapter S, LLCs, and PCs)
   - Partnerships
   - Unincorporated Associations

2. The business entity must be engaged in an independent activity

What is the maximum amount of deposit insurance coverage?

- NEW! Coverage is now increased from $100,000 up to $250,000 per legal entity through December 31, 2009.
  - The existence of multiple signers does not increase coverage
  - A separate business purpose for funds owned by the same legal entity does not increase coverage.

Remember! A business (through 12/31/09) can be insured for both $250,000 in an interest bearing deposit (Category 7) *and* also have unlimited coverage for a "Category 10 - Non-interest bearing transaction account" (assuming the deposit is with a participating bank).

Category 8 - Government/Public Unit Accounts

What is a Governmental account? Deposit insurance is provided to the "*official custodian*" of governmental deposit funds of any state of the United States, or any county, municipality, or political subdivision

What is an "Official Custodian"?

- An "official custodian" must have plenary authority, including control, over funds owned by the public unit which the custodian is appointed or elected to serve.
  - Control of public funds includes possession, as well as the authority to establish accounts for such funds in insured depository institutions and to make deposits, withdrawals, and disbursements of such funds.

Deposit Insurance Coverage:

NEW! Coverage until 12/31/09 is as follows:

1. (a) If the public unit is located in the same state as the bank ("participating" bank):
   - $250,000 for all time and savings deposits
   - unlimited coverage for all non-interest bearing transaction accounts

1. (b) If the public unit is located in the same state as the bank (bank has "opted out")
   - $250,000 for all time and savings deposits
   - $250,000 for all demand deposits

2. (a) If the deposit is in a bank in a different state than the public unit ("participating" bank):
   - $250,000 for time and savings deposits
   - unlimited coverage for all non-interest transaction accounts with unlimited transactions

2. (b) If the deposit is in a bank in a different state than the public unit (bank has "opted out"):
   - $250,000 for all deposits

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Category 8 - Government/Public Unit Accounts

Deposit Insurance for Accounts Held by Government Depositors

www.fdic.gov/deposit/deposits/FactSheet.html

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Category 9 – Mortgage Servicing Deposits into P&I Accounts

"What is the deposit insurance coverage for co-mingled "mortgage servicing deposits, including P&I payments?"

"Old rule" **–** The payments of P&I held in a commingled mortgage servicing escrow deposit was insured up to the "SMDIA" ($100,000 now $250,000) as to each mortgagee under the account. The mortgagee's interest in all deposits was added together in the bank.

"New rule" - Coverage is provided to the mortgagee or investors, but coverage is separate from other accounts maintained by the mortgagees or investors. The amount of coverage is up to the "SMDIA" of $250,000 per mortgagor.

Example: A mortgage servicer collects from one thousand different borrowers their monthly mortgage payment of $2,000 (P&I) (for this month) and places the funds into a mortgage servicing escrow account. The aggregate of all payments - $2,000,000 - is fully insured because each mortgagor's payment of $2,000 (P&I) is now insured separately for up to $250,000 (until 12/31/09, then up to $100,000).

Why the change? Enables the FDIC to make deposit insurance determinations on mortgage servicing accounts more quickly and to pay deposit insurance more quickly. A borrowers P&I payment is not added with any other category of deposit insurance (i.e., Category 1 thru 6).

Note that under the new rules the payment of T&I is unaffected: As under the current insurance rules, under the interim rule amounts in a mortgage servicing account constituting payments of taxes and insurance premiums is insured on a *pass-through* basis as the funds of each respective mortgagor. Such funds are added to other individually owned funds held by each such mortgagor at the same insured institution and insured to the applicable limit.

Category 10 – Non-Interest Bearing Transaction Accounts - (Unlimited deposit insurance coverage through 12/31/09)

"New Rule"

- Effective October 14, 2008, there is unlimited deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2009 unless the insured depository institution opts out of the program.

- Deposits under this category are insured separately from any funds the depositor may have in deposits in the same bank under any of the other nine deposit insurance categories.

- Definition: "Non-interest-bearing transaction account" means a transaction account on which the institution pays no interest and does not reserve the right to require notice of intended withdrawals. It encompasses traditional checking accounts that allow for unlimited deposits and withdrawals at any time.

  There was a modification effective November 21, 2008 for this temporary rule. Included under this section are "IOLTA" deposits and "NOW" account deposits that earn .5% or less.

  Official checks (those issued by institutions – for example, cashiers' checks, certified checks, money orders) **do** come within the definition. (The interim rule requests comment on whether NOWs should be provided unlimited coverage.)

Why the change?

- This new rule is intended to help stabilize large balance non-interest bearing transaction deposits such as payment-processing accounts, (e.g. payroll accounts) used by businesses, however, any depositor is eligible to use this category if they meet the requirements.

What are the requirements for the bank?

- All FDIC-insured institutions are covered under the program for the first 30 days without incurring any costs. After that initial period, however, institutions wishing to no longer participate must opt out or will incur an insurance assessment for future participation. If an institution opts out, the guarantees are good only for the first 30 days or when the bank opts out.

Category 10 – Non-Interest Bearing Transaction Accounts - (Unlimited deposit insurance coverage through 12/31/09)

Example:

Facts: "ABC Corporation" has the following deposits in "XYZ Bank":

- Account #1 - $1,000,000 in a non-interest bearing transaction payroll account (unlimited transactions allowed)
- Account #2 - $200,000 in a non-interest bearing transaction operating account (unlimited transactions allowed)
- Account #3 - $245,000 in a one year interest bearing Certificate of Deposit (excess cash) which was opened on 10/15/08.

Are all three accounts fully insured? YES!

Explanation: Accounts #1 and #2 are added together since they are non-interest bearing transaction accounts insured under Category 10 through 12/31/09 with unlimited deposit insurance coverage.

Account #3 is an interest bearing account insured under Category 7 – Business Organizations for up to $250,000. (Since the CD will mature before the sunset of the 12/31/09 the reversion of the SMDIA coverage from $250,000 to $100,000 is not an issue).

Eligible Ownership Categories

Owner = Individual(s) or Trust

- **Category 1 - SINGLE**
- **Category 2 - JOINT**
- **Category 3 - REVOCABLE TRUST**
- **Category 4 - IRREVOCABLE TRUST**
- **Category 5 - CERTAIN RETIREMENT**
- **Category 6 - EMPLOYEE BENEFIT PLAN**

Owner = Business Organizations

- **Category 7- CORPORATION PARTNERSHIP UNINCORPORATED ASSOCIATIONS**

Owner = Individual or Business

- **Category 9 - P&I**

Owner = Individual or Business

- **Category 10 - NON-INTEREST BEARING**

Owner = Government Entity or Political Subdivision

- **Category 8 - GOVERNMENT**

Example: Husband and Wife maximizing coverage by opening accounts under four different deposit insurance "categories."

	Category 1 Single Accounts	**Category 2** Joint Accounts	**Category 3** Revocable Trust Accounts*	**Category 5** *Certain* Retirement Accounts	**Total Coverage**
Husband (Individually)	$250,000 (#1)			$250,000 (#5)	$ 500,000
Wife (Individually)	$250,000 (#2)			$250,000 (#6)	$ 500,000
Together		$500,000 (#3)	$1,500,000 (#4)*		$ 2,000,000
Total	**$500,000**	**$500,000**	**$1,500,000**	**$500,000**	**$ 3,000,000**

*** The Category 3 – Revocable Trust deposit accounts assume the husband and wife have opened an account titled " John and Mary Smith POD Alice, Betty and Cathy."**

Remember: Two owners times three beneficiaries times $250,000 =$1.500,000.

Note: The example on this slide is solely to show coverage under different deposit insurance categories and is *not* intended to provide estate planning advice.

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Additional Concepts & Fundamentals

Fiduciary Accounts

Death of an Account Owner or Beneficiary

Bank Merger

Bank Failure

Fiduciary Accounts

“Types of fiduciary accounts include: Escrow, Broker, Uniform Transfer to Minors Act “UTMA”

Requirements for “pass-through” insurance coverage:

1. ***Bank’s account records must disclose the fiduciary relationship in the account title***

and

2. ***Either the bank’s account records or the fiduciary/custodian’s records must disclose each owner’s identity and their ownership interest in the deposit***

“If both requirements are met, then the deposit insurance coverage is the same as if the depositor directly deposited the funds at the bank”

Fiduciary Accounts

Example:

Facts: Assume the following four owners independently ask their broker "ABC Brokerage" to invest funds in a bank deposits on their behalf - John Smith - $245,000, Mary Jones - $100,00, Sally and David - $495,000, and Betty Wilson - $160,000. The firm opens a co-mingled deposit in "First Great Service and Rates Bank" titled, "ABC Brokerage FBO" for a total of $1,000,000. Note that Sally and David independently are also depositors of "First Great Service and Rates Bank" and maintain an interest bearing MMDA account with a balance currently at $15,000.

Are all of these funds fully insured in "First Great Service and Rates Bank"? NO!

	ABC brokerage FBO	On their own	Total in Bank	Insured	Uninsured
John Smith	$ 245,000		$ 245,000	$ 245,000	$ 0
Mary Jones	$ 100,000		$ 100,000	$ 100,000	$ 0
Betty Wilson	$ 160,000		$ 160,000	$ 160,000	$ 0
Sally & David	$ 495,000	$ 15,000	$ 510,000	$ 500,000	$10,000
Total	$1,000,000	$ 15,000	$1,015,000	$1,005,000	$10,000

Important! Remember with fiduciary or custodial accounts that it is "all" of the depositors funds in the same ownership category that are added together in calculating deposit insurance coverage regardless of the source of the funds. Sally and David have $510,000 in Category 2 – Joint Account category funds of which only $500,000 is insured resulting in $10,000 of uninsured funds.

Death of an Account Owner

"The death of an account owner will in most cases reduce the amount of insurance coverage"

- ✓ ***However, if an account owner dies, FDIC provides a six month grace period for the purpose of calculating deposit insurance coverage during which the account will be insured as if the account owner had not died.***

Beneficiary’s Death

There is no six-month grace period for the death of beneficiaries

- ✓ ***Deposit Insurance coverage is immediately reduced for an informal revocable trust account***

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Insurance Coverage after a Bank Merger

***Basic rule* - There is separate deposit insurance coverage (i.e. for deposits at each bank) for up to six months (starting with the effective date of the merger) if a depositor had funds in two banks that merge.**

***Special exception for time deposits* – There is separate deposit insurance coverage for time deposits (that were issued by the former bank) which is the greater of either six months or the first maturity date of the time deposit.**

Insurance Coverage after a Bank Failure

FDIC pays depositors "as soon as possible"

- ***FDIC's goal is to make deposit insurance payments within two business days of the failure of the insured institution***
- ***FDIC pays 100 cents or 100% on the dollar for all insured deposits***
- ***Depositors with brokered deposits will take longer to recover their insured funds***
- ***Depositors with uninsured deposits may recover a portion of their uninsured funds***

FDIC's Resources

Call the FDIC toll-free 1-877-275-3342

Information specialists are available from
8 AM until 8 PM Eastern Time
Monday through Friday

Hearing impaired: 1-800-925-4618

FDIC's Website www.fdic.gov

FDIC's Electronic Insurance Estimator (EDIE) www.fdic.gov/edie

Questions and Answers