

# B&B REVIEW

*Financial Services and Transactions*

## YOUR FDIC INSURANCE ADVANTAGE IN RAISING DEPOSITS

### For Further Information Contact . . .

Jennifer R. McCain  
205-226-8777  
[jmccain@balch.com](mailto:jmccain@balch.com)

Katharine F. Musso  
205-226-8707  
[kfmusso@balch.com](mailto:kfmusso@balch.com)

Michael D. Waters  
205-226-8720  
[mwaters@balch.com](mailto:mwaters@balch.com)

Lois S. Woodward  
205-226-3478  
[lwoodward@balch.com](mailto:lwoodward@balch.com)

W. Clark Watson  
205-226-3466  
[cwatson@balch.com](mailto:cwatson@balch.com)

Stephen A. Yoder  
205-226-8791  
[syoder@balch.com](mailto:syoder@balch.com)

Visit our website:  
[www.balch.com](http://www.balch.com)

### For Address Changes, Contact:

Nora Yardley  
205-488-3476  
[nyardley@balch.com](mailto:nyardley@balch.com)

### INTRODUCTION

The most successful banks in these difficult times will be those that attract and retain core deposits. This is true in the long term if your institution will be seeking a buyer some day, and wants to build a base of stable deposits to attract bidders. This is also true in the short term simply to have a reliable funding source for loan growth.

Sometimes overlooked in the deposit-seeking process is the distinct advantage that insured banks like yours have from their FDIC insurance. Particularly with the increase in coverage for retirement accounts that went into effect two years ago, banks have a distinctive marketing advantage over other financial service providers anxious to attract investable funds.

Banks should train their deposit-gathering employees on some of the basics of FDIC insurance, and be able to point customers to the FDIC's various consumer and bank employee resources for understanding FDIC insurance. The bank's own marketing materials and policy manuals on the availability of FDIC insurance for deposit products should be up-to-date and easy to understand.

### RETIREMENT ACCOUNT INSURANCE

In early 2006, Congress passed the first FDIC deposit insurance reform in over 20 years. Although there was pressure to increase the \$100,000 coverage amount for all types of deposit accounts, Congress decided instead only to grant an increase in coverage, to \$250,000, for certain retirement accounts. For non-retirement accounts, the reform law provided that the FDIC may consider an increase in coverage, but not until 2011. For that reason, many consumers and many businesses offering retirement plans to their employees may not be aware

of the higher coverage amounts for retirement accounts.

Assets in retirement plans will continue to grow at a rapid rate as more and more baby boomers maximize their retirement savings just before retirement. Congress recognized that banks and savings associations needed higher coverage levels for deposit accounts for retirement plans in order to compete with non-deposit products from non-banks.

The following types of retirement accounts are insured up to \$250,000, up from \$100,000 previously:

- Traditional IRAs (Individual Retirement Accounts)
- Roth IRAs
- Simplified Employee Pension (SEP) IRAs
- Savings Incentive Match Plans for Employees (SIMPLE) IRAs
- Self-directed Keogh accounts
- 457 Plan accounts for state government employees
- Self-directed accounts at defined contribution plans sponsored by employers (such as a 401(k) plan)

All deposits at the same insured bank that are in the above categories would be added together and the total would be insured up to \$250,000. The increase from \$100,000 to \$250,000 provides more convenience to customers to use a single institution – yours – for a number of retirement accounts that might previously have been spread over several financial service providers. Importantly, all of such accounts at one institution are insured by the U.S. Government up to the new limit, which would

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not be the case for accounts at non-insured institutions.

These rules might be of interest not only to individuals but also to retirement plan administrators at local businesses.

**NON-RETIREMENT ACCOUNT INSURANCE**

Even though the coverage amount for non-deposit accounts did not increase, there is still good news for customers who have both retirement savings and non-retirement savings. Retirement accounts that are protected now up to \$250,000 are insured separately from other accounts, so that the other accounts do not count toward the \$250,000 limit.

The following categories of deposit accounts would receive separate insurance coverage from retirement account coverage:

- An individual's checking and savings accounts held in a joint name, as opposed to the individual's name
- Business accounts of the individual
- An individual's share of an employer-sponsored pension or profit-sharing plan (so-called "pass-through" insurance)
- Certain trust accounts

**DISCUSSING THE COVERAGE AMOUNTS WITH A SMALL BUSINESS OWNER**

Small business owners may be the type of customer who would benefit the most from the FDIC's coverage rules, because they may own or otherwise control a variety of deposit accounts that collectively add up to well more than the coverage limits but still would be fully insured.

For example, the following five accounts would be completely insured even though they total \$750,000:

- Checking account in individual name of the business's CEO totaling \$100,000;
- Checking account in joint name of CEO and his or her spouse totaling \$200,000;
- Payroll checking account in corporate business name (not a sole proprietorship) totaling \$100,000;
- CEO's portion, totaling \$100,000, of the business's profit sharing plan account; and

- IRA account in CEO's individual name totaling \$250,000.

**CAUTION ABOUT INSURANCE ON NON-DEPOSIT PRODUCTS**

Bank marketing efforts for FDIC-insured products must be clear that the FDIC only insures checking accounts, savings accounts, certificates of deposits and other types of deposits. The FDIC does not insure money invested in mutual funds, stocks, bonds, life insurance policies and annuities, even if purchased at an insured bank.

**FDIC RESOURCES FOR CONSUMERS**

The FDIC offers a variety of resources for consumers to use to understand the sometimes confusing coverage rules, including:

- The FDIC's web site at [www.fdic.gov](http://www.fdic.gov)
- The FDIC's brochure Insuring Your Deposits (available at their web site)
- The FDIC's "Electronic Deposit Insurance Estimator" (EDIE), an interactive tool providing a summary of FDIC coverage, also available at the web site.

The FDIC's toll-free number 1-877-ASK-FDIC (1-877-275-3342) Monday through Friday 8:00 am to 8:00 pm, Eastern Time (hearing impaired call 1-800-925-4618).

**FDIC RESOURCES FOR BANK EMPLOYEES**

The FDIC also provides helpful training on its web site for bank employees, *Financial Institution Employee's Guide to Deposit Insurance*, at [www.fdic.gov/deposit/deposits/financial/index.html](http://www.fdic.gov/deposit/deposits/financial/index.html).

**RECENT PROPOSAL ON RESERVES**

The Federal Reserve has recently proposed to allow three per month additional check or debit card transactions in money market deposit accounts and savings deposit accounts, and still not require reserves to be held for such accounts. This could help make these accounts somewhat more attractive to customers who otherwise might be using non-deposit, non-insured accounts such as money market mutual funds. If the proposal is adopted, the changes would become effective later this year.