PRESS RELEASE
Federal Deposit Insurance Corporation

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FDIC PROPOSES TO SIMPLIFY THE INSURANCE RULES FOR JOINT ACCOUNTS AND PAYABLE-ON-DEATH ACCOUNTS

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today proposed to simplify the agency's deposit insurance rules governing the coverage of two common types of accounts -- joint accounts and "payable-on-death" accounts (also known as POD accounts or revocable trust accounts). The FDIC is considering the changes because the current rules are frequently misunderstood by both consumers and bankers. That confusion can create losses for depositors if their insured institution fails and they mistakenly believed their funds were within the $100,000 insurance limits.

"The FDIC is considering this simplification of the insurance rules as part of our ongoing effort to help depositors know whether they have funds over the $100,000 insurance limit and act, if necessary, to protect their savings," said FDIC Chairman Donna Tanoue.

In general, the calculation of FDIC insurance coverage for joint accounts (those owned by two or more people) currently involves a two-step process. Step One: All joint accounts owned by the same combination of people at an insured institution are added together and insured up to $100,000. Step Two: Each person's shares in all joint accounts at that same institution are added together and insured up to $100,000. This means no one person's insured interests in joint accounts can exceed $100,000.

FDIC officials say that much of the confusion over the joint account rules stems from the fact that many people are unaware of the first step. For example, people mistakenly believe that a joint account owned by two people would be insured up to $200,000, when the actual coverage is $100,000. To address this problem, the FDIC proposal would eliminate the first step. As a result, the maximum insurance coverage of a particular joint account would be increased from $100,000 in total to $100,000 for each owner. Given that the second step still would apply, however, the maximum insurance coverage that anyone could receive for his or her interests in joint accounts at an institution would remain at $100,000.

POD accounts are those where the depositor indicates in the account records that, upon his or her death, the funds in the account will be payable to one or more named beneficiaries. The current rules provide that, if certain conditions are met, the interests of each beneficiary in a depositor's POD accounts at an institution will be insured up to $100,000. One such condition is that the beneficiaries of the account are the owner's spouse, children or grandchildren (known as "qualifying beneficiaries"). This means a parent's POD accounts that list three children as the beneficiaries would be insured for up to $300,000, not just $100,000.

Some people mistakenly believe, however, that each beneficiary of POD accounts is entitled to $100,000 of insurance, regardless of the relationship. They incorrectly assume, for example, that a POD account naming a parent, brother and sister as the beneficiaries would be insured up to $300,000. But under current rules, an account with those beneficiaries would be considered the owner's individual account and protected (with other individual accounts) up to $100,000, not to $300,000. In response to this confusion, the FDIC today proposed to add parents and siblings to the list of qualifying beneficiaries of POD accounts.

FDIC officials stressed that the proposed changes would add relatively little to the cost of the typical failed bank. They said the main effects of the proposed changes would be to make the insurance rules easier to understand and, in turn, to enhance public confidence in the deposit insurance system. The proposed revisions would supplement a recent simplification of the insurance rules, effective on July 1, that inserted a variety of straightforward examples to help depositors understand the rules, along with some substantive changes.

Written comments are due within 90 days after the proposal is published in the Federal Register. FDIC officials are reminding consumers and bankers that the current rules remain in effect until any changes are adopted as final.

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