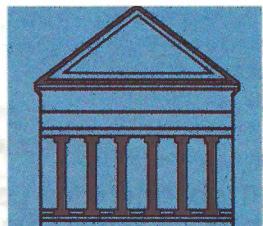


When a Bank Fails

Facts on
Protecting
Depositors
and Collecting
Loans in a
Failed Bank



Understanding FDIC Operations

1. Which financial institutions' depositors are insured by the FDIC?

The FDIC insures depositors in all banks chartered by the federal government, and most banks chartered by state governments. Depositors in some U.S. branches of foreign banks also are insured. Depositors in about 97 percent of the nation's banks are protected by FDIC insurance. Insured banks are required to indicate their insured status in their advertising and to display FDIC signs at their offices.

2. How does the FDIC protect bank depositors against loss?

Each bank approved for deposit insurance must meet high standards of safety and soundness in its banking practices. Adherence to these standards is determined through regular bank examinations by the FDIC, other federal regulatory authorities, and state banking agencies. If, despite these precautions, an insured bank gets

This booklet offers general information on how the Federal Deposit Insurance Corporation deals with depositors and other customers when an insured bank is declared insolvent. Specific questions not covered in this booklet should be referred to FDIC officials in the closed bank or to the Division of Liquidation, FDIC, 550 17th Street, N. W., Washington, D. C. 20429.

into financial difficulties and must be closed, the FDIC acts as quickly as possible to protect depositors by arranging a merger with a healthy institution, or paying depositors' accounts to the insured limit.

In addition, the FDIC usually is designated to act as "Receiver" for the failed bank; that is, it assumes the task of liquidating the bank's assets and settling its debts, including claims for deposits in excess of the insured limit. The FDIC is required to be named Receiver for failed national banks; most states appoint the FDIC as receiver because of the FDIC's highly-qualified liquidation staff.

3. Does federal deposit insurance protect the interest of nondepositor creditors or shareholders of a failed bank?

No. Insurance protects only depositors.

4. What options does the FDIC have in meeting its obligations to the depositors of a failed bank?

Purchase and Assumption Transaction (Merger). This is a preferred procedure under which all deposits, both insured and uninsured, of an insolvent bank are as-

sumed by a healthy institution with financial assistance from the FDIC. Depositors of the failed bank automatically become depositors of the assuming bank and have access to their deposits to the same extent as they had in the insolvent bank prior to its financial collapse. Under the law this procedure can only be used when it is less costly to the FDIC than the following alternatives:

Deposit Payoff. A procedure under which the FDIC directly pays depositors by check up to the insured limit. Such payments usually begin within a few days of the bank's closing.

Deposit Transfer. A form of payoff under which depositors are paid by transferring their insured deposits to an agent bank in the area, funded by an FDIC payment to the agent bank equal to the insured deposits. Customers of the failed bank then are able to withdraw their funds immediately from the assuming bank.

5. Why would the FDIC pay off depositors in a failed bank or transfer their insured accounts to another bank rather than arrange for a purchase and assumption by a healthy bank?

If the FDIC determines that the cost of a merger would be greater than the cost of a payoff, the law requires that the payoff procedures be used. In some cases, no eligible banks express interest in acquiring the failed institution.

6. Where does the FDIC get the money it uses to pay insured deposits when an insured bank is closed?

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

Bank Failure and Deposit Payoff

7. How is a depositor notified when his or her bank has been closed?

When an insured bank has been closed for liquidation and a payoff is to be made, the FDIC is required to notify each depositor in writing at the customer's last address on record with the bank. This notification is mailed within a few days after the bank closes. Every effort also is made to inform the public through the news media. In a situation where the failed bank is merged with another institution, depositors are notified by the assuming bank. This notification usually is mailed with the first bank statement after the assumption.

8. What does the FDIC do in a payoff?

It balances the bank's books and credits interest earned on all accounts through the date of closing. FDIC claim agents determine how much each depositor is owed and then prepare a list of all deposits. This list is flagged to indicate those depositors who require special

handling because they have past due loans, overdrafts or deposits pledged as collateral and depositors who have funds in excess of the insured limit. Checks then are prepared for each depositor up to the insured maximum.

9. When can a depositor expect to receive his or her money?

In the case of a payoff, the FDIC begins paying depositors generally within a few days after a bank has closed. In the case of a merger, the funds usually are available on the next business day.

10. Where does the depositor obtain his or her money after receiving notice of a bank closing?

The information is posted on the doors of the closed bank, publicized in the press and, in the case of a payoff, in the notice sent to insured depositors. In the case of a deposit assumption the funds are immediately available at the assuming bank.

11. How does a depositor establish an insurance claim?

In a payoff the depositor provides evidence of deposit ownership, such as a passbook, certificate of deposit, or the last statement (with cancelled checks if applicable), and then fills out a claim form at the bank. FDIC claim agents are on hand to assist in filing the claim. Passbooks, certificates of deposit and other documents used to establish claims against a closed bank must be surrendered upon receipt of the deposit insurance payment. Those depositors whose accounts have not been flagged for special attention are directed to a teller's window where their claims are quickly processed. In the case of a merger, customers continue to carry on business as usual, using the deposit slips and checks from the failed bank until new ones are provided by the assuming bank.

12. What happens to those customers whose accounts have been flagged?

In the case of a payoff, persons with deposits in excess of the insured limit are directed to claim

agents who will explain deposit insurance coverage to them, pay the insured portions of their deposits and assist them in filing claims against the estate of the closed bank for the uninsured balances. Depositors whose accounts have been flagged are referred to another area where the Receiver will explain how their accounts are handled. In the case of a deposit assumption, the FDIC freezes the flagged accounts and they are not transferred until cleared by the claim agent.

13. Must a claim be filed in person?

No. Those who are unable to appear in person may file claims by mail. This correspondence should be addressed to the claim agent in charge of the closed bank. All claim forms for amounts in excess of \$50 not signed in the presence of an FDIC claim agent must be notarized. No claims are required in a deposit assumption since the customers of the old bank automatically become customers of the assuming bank.

14. When must a depositor file a claim?

Claims are required to be filed in all payoffs. A depositor is allowed 18 months from the date a Receiver is appointed to file a claim for deposit insurance. However, claims should be filed as soon as possible after the bank's closing.

15. Who should file a claim if more than one person is authorized to draw on an account?

Payment by the FDIC is made to those people authorized to make withdrawals from the account. For example, deposit insurance on an account where either of two parties was authorized to sign for withdrawals could be claimed by either party. If two signatures were required to make withdrawals, both signatures would be necessary to claim deposit insurance.

16. How is the insurance payment made?

The FDIC makes payment to the depositor by check or it may use other means such as establishing an account for the depositor in an operating bank in the local area. These funds are available for immediate withdrawal.

17. If a depositor has more than \$100,000 (the present insurance limit) in a closed bank and is paid \$100,000 by the FDIC, what happens to the amount in excess of \$100,000?

If, for example, a depositor has a total claim of \$105,000, he or she would be paid \$100,000 and would retain a claim against the estate of the closed bank for the remaining \$5,000. For this \$5,000, the depositor would be given a Receiver's Certificate as proof of his or her claim and would receive **pro rata** payments as the assets of the bank are collected or sold. In a deposit assumption all accounts, insured and uninsured, are transferred to the assuming bank.

18. What happens in a payoff if a depositor expects to be paid an amount that is different from what the FDIC pays?

The FDIC determines how much a depositor should be paid based on the amount of money on account with the bank, plus interest accrued through the date of the bank's closing. If this amount is not what the depositor expects to receive, the depositor must pro-

vide proof to confirm his or her claim to the FDIC claim agent in the bank.

19. How can the correct balance in a checking account be determined prior to accepting payment of deposit insurance?

Final statements with cancelled checks are available to depositors prior to the filing of their claims. These are made available at the closed bank when the payoff begins or are mailed promptly. This allows a review of the final charges against the account from the date of the last regular statement for reconciliation with the depositor's checkbook.

20. What happens to checks that do not clear an account before the bank is closed?

In a payoff those checks are not paid or charged against the account because the FDIC freezes all accounts at the time the bank is closed. Such checks are returned and usually will be marked "drawee bank closed." This does not reflect on the credit standing of any bank depositor. However, it is the depositor's responsibility to make funds available to creditors who

received checks that were returned and did not clear through the depositor's account because of the closing. When the closed bank's deposits are assumed by another bank and the offices reopen the next business day there usually is no interruption in the processing of checks drawn on the failed bank. If the reopening is delayed a few days the checks may be handled as in a payoff.

21. When can the holders of safe deposit boxes in a closed bank gain access to their property?

Access to safe deposit boxes usually is granted to all box holders when the payoff of depositors begins, and immediately in the case of a deposit assumption. In deposit payoff cases access to safe deposit boxes is discouraged until the payoff begins. However, if the customer has a genuine emergency, access to the safe deposit box can be gained on a case-by-case basis.

22. Can a bank customer with, for example, \$150,000 on deposit and a \$50,000 loan balance offset the portion of the deposit that exceeds the \$100,000 insurance limit against the balance due on the loan?

In most states a depositor can offset his or her deposit account, including any uninsured portion, against a loan if the loan and deposit are held by the same person or persons. If the loan is past due at the time of a deposit payoff, the FDIC is required to make the offset in calculating the insured deposit. FDIC offset specialists will be available at the bank to determine whether an offset can or must be made. In the case of a deposit assumption, the account in question would be flagged and an FDIC specialist would make a determination on how the loan balance would be treated.

23. How does a bank closing affect interest accruing on a deposit?

In a payoff the accrual of interest ceases on all accounts at the time a bank is closed, even if the account was supposed to run beyond the date of closing. In a merger, where the bank reopens in a few days, the interest to the depositor usually continues uninterrupted.

24. What is a Receiver's Certificate and how much is it worth?

The FDIC as Receiver of a failed bank issues Receiver's Certificates to cover deposits in excess of the

insured maximum as well as other uninsured claims against the failed bank. What the Receiver's Certificates are worth depends on the total amount of claims and how much ultimately is collected on the closed bank's assets.

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

Payments, called dividends, depend on the rate of recovery from the liquidation of the bank's assets, and the extent and priority of claims from other creditors of the bank. Final disbursements usually take several years.

26. Will bank stockholders receive any part of their investment?

Stockholders of a failed bank recover their funds only after all creditors receive payment in full on their claims, plus interest as provided by statute. In most cases, stockholders realize little or no recovery.

Loan Customers

27. What happens to a borrower who owes money to a bank when its deposits are assumed by another bank?

When deposits of a failed bank are assumed by a healthy institution, the assuming bank normally is required to purchase the consumer installment loans, real estate loans, and certain other loans. The assuming bank then has thirty days to select the loans it wants from the rest of the portfolio. The borrower maintains the same payment schedule and makes the payments to the assuming bank on the loans it has taken over. The other loans are retained by the FDIC and payments are made to it on the contracted schedule. In the case of a payoff, all loans are retained by the FDIC and payments made to it as Receiver for the failed bank.

28. What happens if the borrower is delinquent at the time of the bank failure?

The loan probably would be rejected by the assuming bank and would be taken over by the FDIC

for collection. An FDIC representative would meet with the borrower and try to work out a payment schedule to bring the payments current. The borrower might be asked to provide additional collateral or cosigners. At some point the FDIC may attempt to sell the note and payments then would be made to the new holder of the note.

29. What happens to borrowers in the case of a deposit transfer or direct payoff?

In a deposit transfer, if the loans are purchased by the bank receiving the insured deposits, selected loans may be moved with the insured deposits to the new institution. Payments then continue to the new institution under the existing schedule. Those loans not moved are retained by the FDIC and payments are made to it. In the case of a direct payoff to depositors, all loans are retained by the FDIC as Receiver of the failed bank. Those that are current are maintained on the same schedule, with payments made to the FDIC.

30. What if the loan is delinquent at the time of deposit transfer or payoff?

In either a deposit transfer or payoff, the FDIC retains all delinquent loans plus selected other loans. The FDIC representative meets with the borrower and attempts to work out a payment schedule to make the note current. If such an arrangement cannot be agreed to, payments are made to the FDIC until the note is paid off. If it is not possible to work out an acceptable payment program with the borrower, the FDIC has the same options for collecting as any lending institution. It is important to note here that there are many reasons other than delinquency for the FDIC to retain a note after a bank is closed. The assuming bank has thirty days to select the loans it wants to assume and the FDIC retains the loans during that period and keeps the ones that are not selected for a longer period. Loans might be rejected because they do not fit the loan portfolio maintained by the acquiring bank. Commercial loans normally are not transferred in bulk to an assuming bank, even though they may be current in their payments.

31. Why doesn't the FDIC write off or reduce the balance on loans owed to a failed bank in order to lessen the impact on the borrowers?

When acting as Receiver of a closed bank, the FDIC is acting on behalf of all creditors of the closed bank and its obligation is to collect loans promptly and effectively.

Deposit Insurance Coverage

32. What is the basic insurance protection afforded a depositor?

The basic insured amount for a depositor under current law is \$100,000. Deposits maintained in different rights or capacities, or forms of ownership, each are separately insured up to \$100,000. Thus, a person may hold or have an interest in more than one separately insured account in the same insured bank.

33. What types of deposits are insured?

All types of deposits received by a bank in its usual course of business are insured, including savings deposits, checking accounts, deposits in NOW accounts,

Christmas savings and other open-account time deposits, time certificates of deposit, uninvested trust funds, certified checks, cashier's checks, officer's checks, money orders and drafts and travelers' checks for which an insured bank is primarily liable.

34. If a depositor has an account in the main office of a bank and also at a branch office, are these accounts separately insured?

No. The main office and all of its branches are considered to be one bank. Therefore, the accounts would be added together and insured only to the \$100,000 maximum.

35. Is the insurance protection increased by placing funds in two or more types of deposit accounts in the same bank?

No. Deposit insurance is not increased merely by dividing funds owned in the same right and capacity among the types of deposits available. For example, checking and savings accounts owned by the same depositor are added together and insured up to \$100,000.

36. If a depositor has accounts in several different insured banks, will the deposits be added together in determining insurance coverage?

No. The maximum insurance of \$100,000 is applicable to each insured depositor in each insured bank, without regard to deposits held in any other insured bank.

37. If a husband and wife, or any two or more persons have, in addition to the individually-owned accounts of each, a valid joint account in the same insured bank, is each account separately insured?

Yes. If each of the co-owners has personally signed a valid account signature card and has a right of withdrawal on the same basis as the other co-owners, the joint account and each of the individually-owned accounts are separately insured up to the \$100,000 maximum. (The execution of an account signature card is not required for time certificates of deposit or any other deposit obligation evidenced by a negotiable instrument, but the deposit must in fact be jointly owned.) However, the insurance protection on joint accounts is not increased by rearranging the

names of the owners, changing the style of the names, or by establishing more than one joint account for the same combination of owners in the same insured bank. No joint account in any case is entitled to insurance coverage in excess of \$100,000.

38. What insurance coverage is provided for IRA and Keogh account deposits?

IRA and Keogh funds, when held by a bank in a trust or custodial capacity, are insured separately from other deposits. IRA and Keogh funds held in time or savings deposits are insured up to the maximum \$100,000 and funds held in demand deposits are, in most cases, separately insured to the maximum of \$100,000. Alternatively, IRA and Keogh funds held by a nonbank trustee or custodian and deposited in a time or savings deposit in an insured bank are separately insured to the maximum of \$100,000.

Further information about insurance of corporate, partnership, testamentary, trust, joint deposits owned by a various combination of owners, and other special accounts is included in the FDIC publication "Your Insured Deposit." Copies of the booklet are available free from the FDIC Corporate Communications Office, 550-17th Street, N.W., Washington, D.C. 20429.

Each depositor insured to \$100,000



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