Important Information

From The Federal Deposit Insurance Corporation

What You Should Know About The New Deposit Insurance Rules

On April 30, 1990, the Federal Deposit Insurance Corporation (FDIC) adopted new rules for deposit insurance coverage that begin taking effect July 29, 1990. ***Most depositors will not be affected by the changes. The basic coverage that protects individual accounts for up to $100,000 and joint accounts for up to an additional $100,000 remains the same. Your insured deposits also continue to be backed by the full faith and credit of the United States.***

However, depending on the types of accounts you have and the amounts you have on deposit, you may be affected by some of the changes. This is to notify you of the changes and to help you determine whether your accounts may be affected.

You should be aware that deposit insurance only becomes a factor in the event that an institution where you have funds on deposit becomes insolvent and is closed. Typically, the FDIC is able to sell all the deposits of the failed institution to a healthy institution and service to customers is uninterrupted. If the FDIC cannot find a buyer for the failed institution, depositors will be paid up to the insurance limit of $100,000. The effect of the new insurance rules described below will be apparent ***only*** when the FDIC cannot find a buyer and has to reimburse depositors for their insured funds.

If after studying the new insurance rules you believe that some of your funds on deposit at any one institution are not fully insured, you should consult your institution to confirm that this is your situation. You may wish to consider ways to obtain total coverage. There usually is an easy way to obtain full coverage, such as simply transferring the excess funds to another institution.

Why are there new rules?

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), a law enacted by the U.S. Congress, transferred the responsibilities of the former Federal Savings and Loan Insurance Corporation (FSLIC) to the FDIC. As a result, the FDIC now insures deposits in banks (using the "Bank Insurance Fund") as well as savings associations (using the "Savings Association Insurance Fund"). The new law also required the FDIC to eliminate differences that existed in deposit insurance coverage at banks and savings associations, which led to the rule changes that are summarized here.

When do the new rules become effective?

For most accounts, the rules take effect July 29, 1990. Certificates of deposit (CDs) and other time deposits will ***not*** be affected until the first maturity date after July 29, 1990. Certain other provisions of the new rules are phased-in at later dates, as specified elsewhere in this notice.

The following is a summary, in general terms, of the most important aspects of the new insurance rules that could differ from what some depositors have been accustomed to in the past.

PERSONAL ACCOUNTS

Single Ownership Accounts

- If more than one person has the right to withdraw funds from a single ownership account, it will be considered a joint account for purposes of calculating insurance coverage ***unless*** there is a Power of Attorney or ***unless*** account records clearly indicate that the second individual serving as an "authorized signer" on the account is not an owner of the funds on deposit.

Joint Ownership Accounts

- Each co-owner must sign a "signature card" for the institution's records as proof of joint ownership. No signature card is required for jointly owned certificates of deposit, negotiable instruments, or accounts established for joint owners by an agent, nominee, guardian, custodian or conservator.

Testamentary (Revocable Trust) Accounts

- A testamentary or revocable trust account is one where funds are paid to a beneficiary upon the death of the owner. When payable to a spouse, child or grandchild, the account is insured up to $100,000 separately from the $100,000 coverage granted to individual or joint accounts. ***However,*** when a husband and wife together establish a single revocable trust account and name themselves as the sole beneficiaries, the account is insured as a ***joint account, not*** as a testamentary account. This most often is seen as: "Husband and Wife in trust for Husband and Wife." This kind of account and any joint accounts held by both husband and wife in the same institution will be added together for insurance purposes.
- A testamentary or revocable trust account must have the terms "in trust for," "as trustee for," or "payable-on-death" ***in the title of the account*** in order to clearly indicate the intention that the funds pass to the named beneficiary upon the death of the other. It is permissible to use the abbreviations "ITF," "ATF" or "POD."
- Beneficiaries must be listed ***by name*** in the deposit account records of the depository institution.
- For insurance purposes, the following also ***will*** qualify as valid beneficiaries of testamentary (revocable trust) accounts: adopted children, adopted grandchildren, stepchildren and step-grandchildren.

Retirement Accounts

- A person's deposits in an Individual Retirement Account (IRA) will be insured ***separately*** from any interests in Keogh retirement account deposits which that person may have at the same institution. That is, each type of account — IRA and Keogh — will be separately insured up to $100,000.
- So-called "457 Plan" accounts are funds deposited by employers under deferred compensation programs for certain employees of state or local governments or tax-exempt organizations. Under the new rules, 457 Plan accounts at any one institution will be insured up to $100,000 in the aggregate, ***not*** up to $100,000 per employee or participant. However, the deposits of any 457 Plans in existence at savings institutions as of July 29, 1990, ***will continue to be covered up to $100,000 per participant*** until January 29, 1992, for new participants as well as for existing participants.

OTHER TYPES OF ACCOUNTS

Public Unit Accounts

- Public unit deposits are funds owned by cities, counties, states or other government entities. Time deposits, savings deposits and interest-bearing Negotiable Order of Withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to $100,000 in the aggregate and separate from the $100,000 coverage for the public unit's demand deposits at the institution. A public unit's funds in an out-of-state institution, though, will have a single $100,000 insurance limit for all of its time, savings and demand deposits.

Mortgage Servicing Accounts

- Mortgage servicers maintain deposits at financial institutions that consist of either tax and insurance (T&I) payments or principal and interest (P&I) payments collected from mortgage loan borrowers. Deposits of P&I payments at any one institution will be insured up to $100,000 per account owner, such as investors who own the mortgages or who hold securities backed by the loan payments, and ***not*** up to $100,000 per each mortgage borrower as is the case with T&I accounts. For insurance purposes, any individual's interest in a T&I account will be added together with any single ownership accounts that the person may hold at the same institution and the total will be insured up to the insurance limit of $100,000.

Unit Investment Trust Deposits

- A unit investment trust is an investment vehicle, generally sponsored by a securities firm, in which investors buy shares in a fixed portfolio of securities and/or certificates of deposit. Eventually, when the underlying securities and CDs mature or are sold, the trust is dissolved and principal is returned to the investors. For insurance purposes, a unit investment trust's CDs will be treated as a corporation's deposits and will be insured up to the insurance limit of $100,000, ***not*** up to $100,000 for each individual investor in the trust.

CDs Used to Fund Life Insurance and Annuity Contracts

- Funds deposited by a life insurance company or other corporation solely to fund life insurance or annuity contracts will be insured up to $100,000 per individual entitled to receive benefits, provided three conditions are met. These are: 1) the life insurance company establishes a separate account for the funds; 2) the account cannot be used for any other business of the company; and 3) the account cannot be accessed by other creditors if the life insurance company becomes insolvent and its assets are liquidated.

Accounts Held by Depository Institutions in Fiduciary Capacities

- Deposits held by an insured institution in a trust department or in some other fiduciary capacity (such as an escrow agent) will be insured for up to $100,000 for each owner or beneficiary ***and*** will be insured separately from any other deposits of the owners or beneficiaries at the same institution. Funds held as executor or administrator for a deceased person's estate will be insured up to $100,000 per estate.

RECORDKEEPING REQUIREMENTS

- The deposit account records of a depository institution must specifically disclose the existence of any fiduciary relationship (such as trustee, agent, guardian or executor).
- Since an account may qualify for additional deposit insurance based on the relationships of the people involved, details of the relationships and any ownership interests of other parties must be evident from one of three sources. They are: 1) the deposit account records of the institution; 2) records maintained "in good faith" by the depositor; or 3) records maintained "in good faith" by some other person or entity, such as a pension plan administrator.
- The deposit account records that the FDIC will look at to determine insurance coverage include account ledgers, signature cards, certificates of deposit, passbooks and certain computer records of the institution. The FDIC ***does not*** look at account statements, deposit slips, items deposited or cancelled checks in order to determine the extent of insurance coverage.

IF YOUR INSTITUTION MERGES WITH ANOTHER

- Since insurance limits are based on a depositor's funds in any ***one*** institution, coverage can change if two or more institutions where you have funds on deposit merge. In this case, as in the past, deposits continue to be separately insured for six months from the date that the merger takes effect.
- Certificates of deposit will continue to be separately insured until the first maturity date ***after*** the end of the six-month transition period. CDs that mature during the six-month period and are renewed for the same term and same dollar amount, with or without interest, will continue to be separately insured until the first maturity date ***after*** the six-month period. CDs that mature during the six-month period and are renewed on any other basis, or that are not renewed and become demand deposits, will be separately insured only until the end of the six-month period.

FOR FURTHER INFORMATION

If, after reviewing this notice, you still have questions about how your accounts will be treated for insurance purposes, please contact your bank or savings association for more help. You also may write to the following address: FDIC, Office of Consumer Affairs, 550 17th Street, N.W., Washington, D.C. 20429.

The information in this notice is only a summary of aspects of the new insurance rules presented in a non-technical way. This notice is not intended to be a legal interpretation of the FDIC's laws and regulations on insurance coverage.

For a more complete description of the changes adopted by the FDIC, depositors or their advisors should refer to the final regulations published in the Federal Register. For more details about the technical aspects of insurance coverage, please consult the Federal Deposit Insurance Act (12 U.S.C. 1811-1833e) and the FDIC's final regulations.