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A Deposit-Protection Primer

Bank Troubles Spur Jitters Among Customers

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It has been two weeks since IndyMac Bank was seized in the third-largest bank failure in U.S. history, and even much healthier banks still are getting calls from customers worried about the safety of their money.



Getty Images

Bank's seizure has consumers wary.

under from 1990 to 1992.

KeyCorp customers "are really trying to understand better what's insured...how you spread accounts," Henry L. Meyer III, the Cleveland-based bank's chief executive, told analysts and investors on a conference call. He made sure to note that "we are not seeing runs [or] walks" on the bank and that KeyCorp's deposits actually grew during the previous week.

Still, banking regulators are girding themselves for more bank failures, though far fewer are likely than the 834 that went

Banks in general are suffering. The combined second-quarter net loss this year was \$5.2 billion by the 10 largest U.S. banks and thrifts by deposits, holding about 40% of the nation's total. That compares with profit of \$24.4 billion a year earlier. Meanwhile, the same financial giants increased their combined loan-loss provision to \$32.5 billion in the latest quarter from \$7.6 billion.

Here are answers to commonly asked questions by worried bank customers:

Question: What causes a bank to fail?

Answer: Regulatory bodies decide to close a financial institution when its capital levels fall too low or it can't meet its obligations for the next day.

Q: How do customers find out if their bank is at risk?

A: One way to track that is via the free Safe & Sound bank-rating feature at Bankrate.com. Bauer Financial issues more detailed bank reports for \$10-\$50 at www.bankstars.com.

But these offer clues, not definitive government judgments. Consumers don't have access to the FDIC's "problem list" of banks. In the first quarter, there were 90 institutions on the list. "Only about 13% fail on any given year," FDIC spokesman Andrew Gray said.

Q: Are deposits safe?

A: The Federal Deposit Insurance Corp. covers individual accounts up to \$100,000 per depositor per bank or \$250,000 for most retirement accounts (and that includes any accrued interest). Deposits held in the same bank, under additional categories of ownership, such as trusts, may be insured separately.

The FDIC doesn't insure money invested in stocks, bonds, mutual funds, life-insurance policies, annuities or municipal securities.

FDIC.gov, the FDIC's Web site, has more information, or call its consumer hotline at (877) 275-3342.

Q: What about uninsured deposits?

A: Amounts over \$100,000 can be partially reimbursed after some time and trouble, with the money coming from sales of the failed bank's assets. In general, depositors eventually get 70% to 80% of their funds returned.

In some cases, such as IndyMac's, depositors have access to 50% of their uninsured deposits right after the failure.

Q: Brokered deposits?

A: Deposits held through brokerages are FDIC-insured up to the same amount as funds deposited directly into the bank. But it could take considerably longer to get access to these funds when a bank fails. Bank records show the broker's name on deposits -- not the customer's -- so it is up to the broker to provide ownership information to the FDIC and then parcel the funds out to customers.

Q: How do people find out that their bank is being closed?

A: When banks close, which usually happens on a Friday, customers are alerted through the local media and an announcement in the bank window. Banks generally open for business as usual on Monday.

Q: What happens to the failed bank's assets?

A: Typically all or most assets are acquired by another institution. Customers can decide to stay with the new bank or move their money to other banks.

Q: Do customers of the failed bank have access to their money during the transition?

A: In most cases customers have access to their insured funds over the weekend and can use ATMs, debit cards and write checks. Sometimes when the bank isn't immediately taken over by another institution, customers can't tap their funds but will receive a check for their insured deposits as early as the Monday after the bank closed.

Q: Do customers have access to business accounts for such things as paying employees?

A: Payroll accounts are considered part of the business' deposits, insured up to \$100,000 maximum per entity.

Q: Can depositors move some or all of their funds to another bank?

A: They have full access to all insured funds when the bank reopens Monday and can withdraw money. They can move the funds to another bank, but there is no need, the FDIC's Mr. Gray said.

In most cases, for certificates of deposit that have not matured yet, customers can take out the money without facing penalties.

Q: If customers keep funds in the new bank, will interest rates and terms of loans change? Should they keep making payments on loans?

A: Initially, accounts earning interest will continue to do so at the same rates and terms, but after time the new institution may change them. The terms of mortgages, car or other loans are "contracts and won't change," Mr. Gray said. In addition, any electronic transactions and payments from reverse mortgages will continue.

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