

Rosen Seymour Shapss Martin & Company LLP

Certified Public Accountants & Profitability Consultants

RSSM Alert

More On FDIC Limits and What You Can Do To Protect Yourself

The response to our Alert on FDIC limits generated several inquiries which we would like to share with you. The following is a list of asked questions concerning FDIC insurance:

1. Do the FDIC limits apply per bank or to each individual branch?

The FDIC limits apply per bank or saving association - not the individual branch. If you have accounts in various branches of the same bank, they are aggregated for the purpose of determining FDIC coverage. The aggregation rules apply to all the account categories - individual, joint, retirement, trust and employee benefit accounts.

2. What happens if I have insured deposits in two different banking institutions and they merge?

When two banking institutions merge, there is a grace period that temporarily protects depositors who have funds in both. In most cases, the funds would be separately insured up to the FDIC limits for a period of six months after the merger. In the case of some Certificates of Deposits the grace period is for more than six months. It would be prudent to check with your bank, if there is any doubt. The grace period is intended to give depositors of the merged banks time to restructure their accounts in the event that the sum of their accounts exceed the FDIC limits.

3. What happens if my bank fails?

The FDIC is required by law to pay insured depositors their funds as soon as possible after the failure of an insured banking institution. Usually insured funds are available within a few days after the bank closes, often the next business day. In most cases, this is accomplished by providing depositors with a new account in another insured bank. If arrangements can not be made with another institution, the FDIC will write a check for the insured balance.

4. Is there any way to exceed the FDIC limits and still be insured?

If your bank or lending institution is a member of the Promontory Interfinancial Network ("Network"), you maybe able to avail yourself of a program that will

allow you to keep up to \$50 million in Certificates of Deposits at any one bank and still have your funds covered by FDIC Insurance. The program is known as the Certificate of Deposit Account Registry Service ("CDARS"). In simplified terms, you establish numerous certificates at your bank, each within the FDIC limits. They are then "swapped" among member banks so that no one bank holds more of your certificates than are FDIC insured. The Network in effect is a clearing house for certificates of deposit in excess of individual FDIC limits. It is your bank that sets interest rates and terms for the individual certificates. If one of your certificates is "swapped" with one at an institution paying a higher interest rate, you will only receive the interest rate established by your home bank. By using the CDARS program you may be giving up higher returns for convenience and security.

5. Are any other products typically offered by banks of savings institutions insured?

Securities

As noted in our earlier blast, FDIC insurance does not cover funds invested in stocks, bonds or insurance products, such as annuities, even if purchased from an FDIC member. In most cases, however, banking institutions are affiliated with brokerage institutions that are members of the Securities Investor Protection Corporation ("SIPC"). In 1999, the passage of the Financial Services Modernization Act repealed the prohibition against such affiliations in place since the 1930s. SIPC coverage is limited to \$500,000 per customer, including up to \$100,000 in cash. Most registered securities are included - stocks, bonds, mutual funds, for example. Unregistered investment contracts and limited partnerships, currency, commodity futures and commodity options are not. It is important to remember that SIPC only insures against custodial losses and/or unauthorized trading. It in no way mitigates against market risk. And unlike the FDIC, where insured deposits are replaced usually within one business day in the case of a bank failure, SIPC action can take a few months, during which time you are not protected against market fluctuations.

Insurance Products

In addition to repealing the separation of banking and brokerage services, the 1999 legislation also did away with the historic separation of banking institutions and insurance companies. So today, it is common for banks to offer an array of insurance products. Unlike banks and brokerage firms, insurance companies are regulated almost exclusively by the various states. Most states have guaranty funds to help pay the claims of financially weakened insurance companies. Coverage is limited and dollar limits vary from state to state. For example, most state funds will not cover guaranteed investment contracts, a feature common in most 401(k) plans. Typically, state associations will insure death benefits with respect to any one life up to \$300,000. In New York, however, the maximum insured is \$500,000. If you have any doubts, it is important to contact your state insurance guaranty association.

If you have any concerns regarding your accounts and FDIC coverage, we at RSSM are available to assist you in reviewing your current situation and restructuring accounts if necessary to maximize your insurance coverage. Please feel free to contact us at 212-303-1880 or e-mail at info@rsmcpa.com. Visit our website at www.rsmcpa.com.

Sincerely,
Rosen Seymour Shapss Martin & Company LLP

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