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Nervous Depositors Have Questions

Financial Advice Columnist Kevin Bourke Has an Answer

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Kevin, I have over $100,000 at a bank, should I pull it out?

Betty in Las Vegas

Betty, many nervous depositors are asking this question, and with good reason. Recently, Federal Regulators took control of IndyMac Bank, resulting in one of the largest bank failures in FDIC history.

Surprisingly, despite public education over the decades from the FDIC, literally thousands of depositors held deposits at IndyMac bank above the FDIC limits. What happens to these uninsured deposits?

FDIC Chairman Sheila C. Bair, in a press release referring to IndyMac dated July 13, 2008, said "It's important to keep in mind that the small percentage of uninsured are still covered for their insured amounts and half of their uninsured money. As assets of IndyMac are sold, they may receive even more."

Money Talks

It's important to note, Betty, that the banking system as a whole in the United States is stable, and no credible sources are predicting its imminent demise. Yet we still ask the question, what happens to my money if my bank should fail, and especially if I have more than $100,000?

The answer is not simple enough to be discussed at length in this column, but Ms. Bair said this in the same release: "All bank depositors should also understand that they can have insurance coverage in excess of the basic limits of $100,000 per institution, with an additional $250,000 per institution for IRAs. For instance, subject to certain conditions, single and joint accounts are separately insured, and revocable trusts generally provide $100,000 of coverage per beneficiary."

There is an easy way to determine whether your deposits are at risk in the case of bank default. Visit the FDIC's website, where you will find the "Electronic Deposit Insurance Estimator." If you don't see a link on the home page, simply type "edie" in the search box, hit enter, and you will be directed to the link.

This calculator is simple to use, and can give you an answer within minutes regarding your deposits. It will ask you for such information as the names of the depositors on the account, if it is a trust, if it is an IRA, the dollar amount, and the bank name. Based on your input, the calculator will determine whether your deposits are insured by the FDIC.

But remember, garbage in, garbage out. Take your time, be certain that you answer each question accurately.

What do you do if you learn that you do have deposits in excess of the FDIC insured limit (or NCUA if you are using a credit union)?

You might be inclined to ask a bank employee if your funds are at risk. Unfortunately, they likely have no more information than you do, and they are certainly not going to advise you to pull money from their employer.

So, it is entirely your decision. Should you keep deposited funds at a bank that are above the limits, and therefore uninsured by the FDIC?

I can't think of one defensible reason to do so. When there are so many banks to choose from, why assume unnecessary risk?

One other item to remember, banks often have a department that sells investments like mutual funds and annuities. These types of investments are subject to various risks including market risks, and are never insured by the FDIC, and so are not subject to FDIC rules, but rather are subject to SIPC rules. For more information on SIPC, read my earlier column here or view an explanatory brochure at SIPC.org.

Betty, when it is so simple to help ensure that your deposits are FDIC insured by using multiple banks, why take any risk at all?

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