Legal Myths on Trial: FDIC Deposit Insurance

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In the aftermath of the financial crisis and ongoing bank seizures across the country, rumors and half-truths regarding FDIC deposit insurance have become widespread. A few are "put on trial" and judged below.

Myth: If you have more than $100,000 in a bank account and your bank is closed by banking regulators, only $100,000 per person is insured.

Verdict: False. The standard deposit insurance coverage limit was temporarily increased from $100,000 to $250,000 approximately three years ago to ease fears in the wake of the financial crisis. The Dodd-Frank Wall Street Reform and Consumer Protection Act (enacted July 21, 2010) made that increase permanent.

The FDIC provides separate coverage for deposits held in different ways, so it is possible for a person to have more than $250,000 in coverage by carefully structuring accounts. The coverage rules are complex and should be reviewed by a knowledgeable attorney or banker when someone has more than $250,000 in deposit accounts at a single financial institution.

Myth: If my bank is seized by regulators, the FDIC has up to 99 years to return my money.

Verdict: False. For years, the FDIC has received questions from worried account holders who have heard that if their bank is seized, the FDIC can take up to 99 years to turn over insured deposit account funds. In fact, there is no hard deadline, 99 years or otherwise. Instead, federal law requires the FDIC to make insured funds available to depositors "as soon as possible" after a seizure, and the FDIC typically does so by the next business day.

Myth: Accounts opened in different branches of a bank are separately insured.

Verdict: False. While a depositor can increase the available FDIC deposit insurance by carefully using different accounts as mentioned, above, the same is not true with respect to using different branches of a single bank. FDIC deposit insurance is determined on a per-bank basis. Accounts opened at different branches of the same institution are combined for purposes of coverage limits.

Some banks operate branches under different names, particularly after a merger, which can confuse customers about the availability of separate coverage unless the bank provides adequate disclosures. For this reason, the FDIC requires banks using more than one name to disclose their legal identity to depositors.

Myth: As long as my bank is insured by the FDIC, any account I open is insured up to the coverage limit ($250,000).

Verdict: False. The FDIC insures only deposit accounts, which include checking accounts, savings accounts, NOW accounts, certificates of deposit (CDs), and money market deposit accounts (MMDAs). Other accounts, however, including securities accounts (mutual funds, etc.) and certain insurance products, are not FDIC-insured even if they are opened or sold at an insured bank. To minimize confusion, federal law requires insured institutions to clarify deposit insurance coverage (or the lack thereof) in advertisements and account materials.

Myth: My law firm's trust account coverage limit is $250,000.

Verdict: False (for now). IOLTA accounts have unlimited insurance for the time being. In November 2008, the FDIC began the Transaction Account Guarantee Program, which temporarily provided unlimited insurance for non-interest bearing accounts and IOLTA accounts. The Dodd-Frank Wall Street Reform and Consumer Protection Act extended the insurance for non-interest bearing accounts through the end of 2012, but failed to address IOLTA accounts. That oversight was corrected when H.R. 6398 was enacted on Dec. 29, 2010, extending unlimited coverage to IOLTA accounts through the end of 2012.

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