ALTMAN & ASSOCIATES
A DIVISION OF
FROST LAW

Federal Deposit Insurance Corporation (FDIC) Insurance

By Liz Altman

Last year I wrote regarding the new rule passed on Friday, January 21, 2022, about trust insurance. The Federal Deposit Insurance Corporation ("FDIC") had approved a new rule to simplify the agency's deposit insurance coverage regulations. Considering recent disconcerting happenings in the banking sector, I thought resending this post made sense.

Life got more manageable for clients with deposits in Revocable and Irrevocable Trusts. The FDIC is merging the two deposit insurance categories for revocable and irrevocable trusts and applying a more straightforward coverage calculation. This resulted from the number of trust deposit inquiries that exceeded all other FDIC inquiries combined. The rule will go into effect on April 1, 2024. The hope is that it will create a consistent and easier process for bankers and depositors.

The rule is the insuring up to $250,000 for each primary trust beneficiary (not to exceed 5), despite the revocable or irrevocable nature of the trust and contingencies or funds allocation among beneficiaries, and the maximum deposit insurance coverage of $1,250,000 per insured depository institution for trust deposits. For example, you create an irrevocable trust for your daughter and her three children. The Trustee can distribute income and principal to any of them. So, if this irrevocable trust deposits $1,000,000 in Bank A and $1,000,000 in Bank B, then the deposits in both banks will be protected by FDIC insurance, while if this irrevocable trust deposits $1,500,000 in Bank C, only $1,000,000 of this account be protected by FDIC insurance.

The FDIC expects most trust depositors to experience no change in coverage when the rule takes effect but a two-year lead time for banks and depositors to become familiar with the new regulation.

The U.S. Treasury Department is studying ways to guarantee all bank deposits should this contagion manifest into a full-blown financial crisis. They are looking into emergency powers requiring passage without going through Congress. The Treasury Dept is afraid that if another regional bank fails, there will be a run on the deposits at smaller banks. The House Financial Services Committee is looking into changes to the current $250k FDIC insurance cap.

The FDIC ensures traditional deposit products such as checking, savings, and money market deposit accounts and certificates of deposits (CD) and cashier's checks, money orders, and other instruments issued by a bank. Each is FDIC insured per account. Investment accounts, stocks, bonds, annuities, and life insurance policies are not covered. It also does not protect the contents of a safe-deposit box. To understand these limits, note your account ownership categories and visit your bank about the insurance status of your deposits.

If you have over $250k in a regional bank and have concerns, consider opening accounts at several separately chartered banks to expand coverage. You can also set up an account at a brokerage firm, and credit unions are also good places for more than $250K as they have the full faith and credit of the U.S. government.

If you're interesting in discussing a trust please call the attorneys at Altman and Associates.

Follow our estate planning blog, Altman Speaks, available on our website: altmanassociates.net

CONNECT WITH US

/altmanassociates

@garyaltman

/in/garyaltman

Annapolis, MD
839 Bestgate Road,
Suite 400
Annapolis, MD 21401

Rockville, MD
11300 Rockville Pike,
Suite 708
Rockville, MD 20852

Washington, D.C.
Suite 500
1050 Connecticut Ave NW,
Washington, DC 20036

Northern VA
8000 Towers Crescent Drive.
13th Floor
Vienna, VA 222182