FDIC

Background

Congress created the Federal Deposit Insurance Corporation (FDIC) in 1933 to protect consumers who hold their money in banks from bank failures. Depositors—persons who hold money in savings accounts, checking accounts, certificates of deposit, money market accounts, Individual Retirement Accounts (IRAs), or Keogh accounts—have FDIC protection of up to $100,000 in the event of a bank failure. The FDIC regulates all banks that are members of the Federal Reserve System and certain banks that are not members of the Federal Reserve System. It is the FDIC's mission to monitor and regulate the banking industry, making certain that banks operate safely and legally, and to prevent bank failures while encouraging healthy competition within the industry. When a bank does fail by not having sufficient assets, the FDIC uses its money to reimburse the bank's depositors. It then sells the failed bank's assets and uses the profits to assist when other banks fail.

The FDIC employs approximately 8,000 people throughout the country. The headquarters are in Washington, D.C., but regional offices exist in Atlanta, Boston, Chicago, Dallas, Kansas City, Memphis, New York City, and San Francisco. In addition, field examiners, whose job is to conduct on-site inspections of banks, have field offices in 80 more locations throughout the country.

The FDIC has JURISDICTION over banks in the 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. It regulates banks, enforcing rules such as the Equal Credit Opportunity Act that prohibits certain forms of DISCRIMINATION in lending, and inspects banks to be sure they are operating profitably and legally. Banks that are insured by the FDIC pay an ASSESSMENT four times per year to the FDIC. The amount of assessment paid by the bank depends in part on the amount of funds deposited with the bank.

History

Banking history in the United States changed forever with the Great Depression. The Great Depression began when the stock market crashed in October 1929, causing numerous banks to fail, which in turn caused bank depositors in many cases to lose most or all of their money. U. S. President Franklin Delano Roosevelt and Congress responded by creating the FDIC to guarantee the safety of bank deposits and regain the public's confidence in the banking industry. The history of the FDIC, however, may be traced back even before the Great Depression.

When the United States was formed in 1776, the thirteen original colonies each had their own banking systems, with no uniform currency and little government involvement in the banking systems. In 1791, Congress created the First Bank of the United States, a bank in Philadelphia that closed in 1811. As the country grew, banking remained largely unregulated and inconsistent. Following the Civil War, the economy in the North prospered while the economy in the South floundered. To encourage economic stability and consistency throughout the country, the National Banking Act of 1864 created national banks as well as the Office of the COMPTROLLER of the Currency (OCC), and the dollar became the national currency. Bank failures in the early twentieth century led the creation of the Federal Reserve System, a central bank that continues to oversee and regulate national banks throughout the country.

The economy grew rapidly in the 1920s until the stock market crash in 1929. Stocks quickly lost their value, and as a result, banks lost money, farm prices fell, unemployment soared, and consumers began taking their money out of banks. Many banks failed and closed, lacking sufficient funds to pay their lenders and depositors. Finally, in 1933, President Roosevelt closed all banks temporarily and enacted the Banking Act. The Banking Act of 1933 established the FDIC, giving it authority to regulate and oversee banks and to provide insurance to bank depositors.

In early 1934, the maximum amount of insurance offered by the FDIC was $2,500, but by the end of the year the maximum amount increased to $5,000. Also in 1934, Congress created an entity similar to the FDIC to protect depositors from failures of federal savings and loan institutions. This entity was known as the Federal Savings and Loan Insurance Corporation (FSLIC).

The Banking Act of 1935 made the FDIC a permanent and independent corporation. Banks continued to fail throughout the 1930s, and the FDIC honored its promise to depositors by reimbursing them up to $5,000 for money lost in bank failures. Gradually, the number of bank failures declined, and by the late 1930s banks were becoming more profitable. In 1950, the FDIC maximum amount of insurance rose from $5,000 to $10,000.

In 1960, only four banks insured by the FDIC failed. The FDIC at that time employed approximately 2,500 bank examiners, and by 1962, no banks insured by the FDIC failed. In 1966, the FDIC maximum amount of insurance rose to $15,000, and in 1969, it rose again to $20,000. In 1980, the maximum amount of insurance was $100,000. It remained at that amount as of 2002.

Inflation skyrocketed to 14 percent by 1981, and the interest rates for home mortgages were extremely high at 21 percent. In 1983, the FDIC continued to collect more in premiums from member banks than it paid out for bank failures, but that same year, 48 banks insured by the FDIC failed. By 1984, the FDIC was paying more on bank failures than it collected in bank assessments, with 79 banks failing. In 1985, 125 banks failed, and in 1986, 138 banks, with assets totaling $7 billion, failed. What was worse, savings and loans were failing at an unprecedented rate, prompting Congress to act in 1989 with the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). This act created the Resolution Trust Corporation (RTC) as a temporary agency charged with administering and cleaning up the savings and loan failures. The act also established the Savings Association Insurance Fund (SAIF), which insures deposits in savings and loan associations and charged the FDIC with administering the SAIF. The SAIF replaced the FSLIC.

In 1990, the FDIC began to increase its premium rate for the first time in its history, charging banks more to remain FDIC insured. The Federal Deposit Insurance Corporation Improvement Act of 1991 allowed the FDIC to borrow additional funds from the U. S. Treasury to rebuild its coffers. It also instructed the FDIC to set premiums for banks based upon each bank's level of risk and to close failing banks in more cost-effective ways. No longer was the FDIC permitted to repay all deposits to encourage consumer confidence; rather, Congress strictly limited the FDIC to reimburse only insured depositors and only to the maximum amount allowed by law. Congress also mandated that the Federal Reserve System not lend money to banks in financial trouble. By 1993, bank failure rates were down to their lowest number in twelve years. Congress dissolved the RTC and transferred its duties back to the FDIC that same year.

How the FDIC Works

Provided a financial institution is insured by the FDIC, the FDIC protects any depositor—individual or entity—regardless of whether the depositor is a U. S. citizen or resident. Federally chartered banks, as well as some state chartered banks, are protected by the FDIC. If a banking institution is FDIC-insured, it must display an official FDIC sign at each teller station. The FDIC insures deposits that are payable in the United States; deposits that are only payable overseas do not receive FDIC protection. Investments such as stocks or mutual funds are not FDIC protected. Deposits into accounts such as savings, checking, Christmas Club, certificates of deposit (CDs) are FDIC insured, as are cashiers' checks, expense checks, loan disbursement checks, interest checks, money orders, and other negotiable instruments.

A depositor who has more than $100,000 in deposits is protected only to the extent of $100,000 per FDIC insured institution. This means that consumers who have assets exceeding $100,000 are best served by keeping no more than $100,000 in any one FDIC insured bank. A bank with more than one branch is considered to be one institution, so merely keeping funds in different branch locations may not be safe. For purposes of determining deposit insurance coverage, the FDIC will add all deposits from all branch offices of the same bank for each depositor. Deposits of more than $100,000 maintained in a single banking institution are protected so long as they are maintained in different categories of legal ownership. Examples of different categories of legal ownership include single ownership versus joint accounts, or individual retirement accounts (IRAs), Keogh accounts, or PENSION or profit-sharing accounts. Different types of accounts, however—checking, savings, certificates of deposit—are not categories of legal ownership. Money contained in separate types of accounts is added together for purposes of determining FDIC insurance coverage.

The FDIC determines legal ownership of bank deposits by examining the bank deposit account records. Assuming those records are unambiguous, the FDIC insurance goes to the individual or entity named. FDIC protection continues for up to six months following the death of a depositor as though the depositor were alive. This protection is important in cases in which the funds of the deceased are left to a survivor whose own bank deposits, combined with those of the deceased, exceed $100,000. Without this protection, the survivor would only receive $100,000 in FDIC insurance; with this protection, the survivor may receive the insurance afforded the deceased depositor as well.

Some states have COMMUNITY PROPERTY laws, meaning that the property of one spouse may legally be considered as the property of the other spouse as well. Community property laws, however, do not affect the coverage afforded by the FDIC. Even in states that have community property laws, an account held solely in the name of one spouse will not be considered by the FDIC as also belonging to the other spouse. Accounts held in the name of both spouses will be insured by the FDIC as joint accounts. With joint accounts, the interests of each individual are added together and insured by the FDIC to the extent of $100,000. This means that if Mary and Bill have a joint savings account totaling $200,000, the FDIC would completely insure Mary's portion of $100,000 and would also completely insure Bill's portion of $100,000.

In the case of retirement funds, such as IRAs and Keogh accounts, the FDIC considers the accounts to be insured separately from other non-retirement funds held by the depositor at the same financial institution. If a depositor has both IRA and Keogh accounts at the same institution, however, those funds will be added together and insured only to the extend of $100,000. Roth IRAs are treated in the same manner as traditional IRAs.

In the case of business accounts, funds deposited in the name of a corporation or other business entity receive the same FDIC protection—up to $100,000—as do individual accounts. A business entity must not exist merely to increase the FDIC protection afforded an individual depositor; the business entity must exist to perform an "independent activity" to receive FDIC protection. When a business entity owns more than one account, even when each account is designated for different purposes, the FDIC will add the total amounts of all accounts and insure the business entity to a maximum of $100,000. This rule also applies if a corporation has separate units or divisions that are not separately incorporated. If a business entity is a SOLE PROPRIETORSHIP, the FDIC treats deposits of the sole proprietorship as the funds of the individual who is the sole proprietor. Those funds will be added to any other insured accounts held by the individual, and the FDIC will insure no more than $100,000.

In addition to its powers of insuring bank and savings and loan deposits, the FDIC regulates the banking industry and may, after proper notice and a HEARING, discontinue its insurance coverage if a bank engages in overly risky banking practices. When this happens, the FDIC requires the bank to provide timely notice to its depositors of the termination of FDIC coverage.

Definitions

Bank: a financial institution, chartered by the state or federal government, that exists to keep and protect the money of depositors, disburse funds for payment on checks, issue loans to businesses and consumers, and perform other money-related functions.

Savings and loan: a financial institution, similar to a bank, whose primary purpose it to make loans to customers, most often for the purchase of homes or other real estate.

Additional Resources

FDIC: Your Insured Deposit www.fdic.gov, 2002.

West's Encyclopedia of American Law. West Group, 1998.

Organizations

Board of Governors of the Federal Reserve System Division of Consumer and Community Affairs20th and C Streets, NW MS 804
Washington, DC 20551 USA
Phone: (202) 452-3667
URL: www.federalreserve.gov

Federal Deposit Insurance Corporation (FDIC)
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URL: www.fdic.gov

Office of the Comptroller of the Currency
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Houston, TX 77010 USA
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URL: www.occ.treas.gov

Office of Thrift Supervision Consumer Program Division
1700 G Street, NW
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