

## Federal Deposit Insurance Corporation (FDIC)

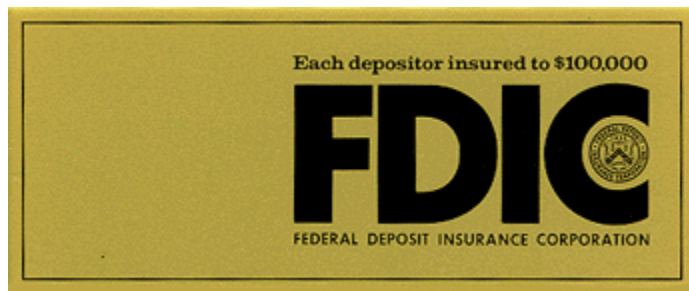
The Federal Deposit Insurance Corporation, or FDIC for short, is a part of the federal government. That means it has the ability to make rules that affect banks in all 50 states, District of Columbia, Virgin Islands, Guam, and Puerto Rico. If it was part of a state government, it could only make rules that affected banks in that state alone. The FDIC's biggest job is insuring the savings of millions of Americans in all the FDIC insured banks across the country, even the savings of kids. The FDIC also visits banks on a regular basis to make sure they are following the rules they need to. These rules, called regulations, make sure the bank operates profitably and fairly. For example, one rule banks have to follow is called the Equal Credit Opportunity Act. It says that a bank can't refuse to loan money to someone just because of his or her color, religion, national origin or for a number of other reasons. A bank CAN refuse to loan money to someone if it thinks (by looking at how much someone earns and how they've paid off other bills) the person will not repay the loan.

When a bank has a sign on it that says "Insured by FDIC" it means that if the bank doesn't have enough money to pay back the people it owes money to, including the bank's depositors, and is closed, the FDIC will make sure all of the depositors get their money, up to the insurance limit which is \$100,000. To be insured by the FDIC, a bank must prove it is being run profitably and fairly. Insured banks also pay the FDIC money four times a year to keep being insured. The money the FDIC collects from banks is put into two different accounts: The Bank Insurance Fund, and the Savings Association Insurance Fund, or BIF and SAIF for short. When the FDIC has to give money to the depositors of a closed bank, it gets it from BIF and SAIF. The amount of money each bank pays depends on how much the bank has in deposits and also how much money is already in BIF and SAIF.

The FDIC insures up to \$100,000 of deposits.

The FDIC runs its operations from its main building in Washington, DC and other regional offices and service centers that are in the United States. The FDIC looks at and watches over the work of many banks. The FDIC has large offices in eight cities

around the country called regional offices. The people working in each of these offices help the bank examiners, researchers, and lawyers do their jobs and make sure the banks are following the laws that protect us. The regional offices make sure the FDIC is doing its job in a particular area. Bank examiners usually work in banks or out of small "field" offices near the area where the banks they watch are located. The FDIC is able to provide good service to its customers because it has offices located across the country. Listed below are a list of the FDIC's supervisory regions and the states and areas they cover:



Atlanta Region -- Alabama, Georgia, South Carolina, West Virginia, Florida, North Carolina, Virginia  
Boston Region -- Connecticut, Massachusetts, Rhode Island, Maine, New Hampshire, Vermont  
Chicago Region -- Illinois, Michigan, Wisconsin, Indiana, Ohio  
Dallas Region -- Colorado, New Mexico, Oklahoma, Texas  
Kansas City Region -- Iowa, Minnesota, Nebraska, South Dakota, Kansas, Missouri, North Dakota  
Memphis Region -- Arkansas, Louisiana, Tennessee, Kentucky, Mississippi  
New York Region -- Delaware, Maryland, New York, Puerto Rico, District of Columbia, New Jersey, Pennsylvania, Virgin Islands  
San Francisco Region -- Alaska, California, Hawaii, Montana, Oregon, Washington, Arizona, Guam, Idaho, Nevada, Utah, Wyoming

FDIC regional districts are as,



#### Structure

All of the people at the FDIC work for you and the other citizens of the United States of America because they are employees of the Federal government. But they get their assignments from the FDIC Chairman. The Chairman runs the FDIC with the help of four other people. Together, they are members of the FDIC's Board of Directors.

The President of the United States decides whom he wants to serve as FDIC Chairman. If the United States Senate agrees with the President's choice, that person becomes the FDIC Chairman for five years.

Donna Tanoue became the 17th Chairman of the FDIC on May 26, 1998. She is the first member of the FDIC's Board of Directors to come from Honolulu, Hawaii, and she brings to the FDIC extensive experience in bank regulation, real estate development, communications technology and community service.

Donna graduated from the University of Hawaii and received her law degree from Georgetown University Law Center in 1981. In 1983, when she was 29, Chairman Tanoue was asked by Hawaii's Governor to become Commissioner of Financial Institutions. She accepted, and became the State's chief regulator of financial institutions at a time of great stress within the industry. Due in large part to her leadership, customers of financial institutions in Hawaii that once were privately insured now enjoy the protection of FDIC deposit insurance.

In addition to her past work as Hawaii's chief financial institution regulator, Chairman Tanoue was recently a member of the largest law firm in Honolulu, where she specialized in banking and real estate finance. She also was Vice Chairman of the University of Hawaii's Board of Regents, and she served as a director of the University's Research Corporation; the Aloha United Way; the High Technology Development Corporation for the State of Hawaii, and of the Legal Aid Society of Hawaii. Her extensive community work includes service on the Community Advisory Board of Oceanic Cablevision and Time Warner Communications of Hawaii.

The four other members of the FDIC Board of Directors also are selected by the President and must be approved by the Senate to work at the FDIC. But only the Chairman and two of the other members of the Board of Directors work full-time at the FDIC. One of these two full-time members is the Vice Chairman of the FDIC Board of Directors.

Andrew C. Hove, Jr. is the Vice Chairman, a job he started on July 23, 1990. Mr. Hove, called "Skip" by his many friends who work with him at the FDIC, came to Washington from Minden, Nebraska, where he ran the Minden Exchange Bank & Trust Company. He had worked at the bank for 30 years doing just about everything there was to do.

Vice Chairman Hove also was Minden's mayor from 1974 to 1982, and he managed the city's money as its treasurer from 1962 until he was elected mayor. Skip graduated from college at the University of Nebraska in Lincoln. He joined the Navy in 1956 and served his country as an officer and aviator for four years. He worked on an aircraft carrier and flew helicopters. The third full-time director's position is currently vacant.

The outside directors are Mr. John D. Hawke, Jr. and Ms. Ellen Seidman. Congress said the outside directors must be the Comptroller of the Currency and the Director of the Office of Thrift Supervision, which means these officials also run the national bank and savings institution supervision programs from their offices in the Department of Treasury. Mr. Hawke is the Comptroller of the Currency, and Ms. Seidman is the Director of the Office of Thrift Supervision.

So, that is the FDIC Board of Directors and a brief description of the types of people who are working to protect the money deposited at FDIC-insured banks and savings institutions. It's a big job. The FDIC protects almost 314 million deposit accounts in 9,308 commercial banks and about 79 million accounts in the country's 1,852 savings institutions. You can tell if a bank or savings institution is insured because they must have one of these stickers on their door:

There is one important thing to remember about the FDIC. The FDIC does not protect banks and savings institutions. These are businesses and their owners must make sure they are earning money. If they aren't earning money, they fail and go out of business. When they fail the FDIC is there to protect you and all of the other depositors the FDIC insures. If the bank fails we make sure the money in every deposit account up to \$100,000 is returned to the right depositor.

### FDIC Divisions

The FDIC is divided up into eight divisions, or groups. Each division provides a valuable service and helps the FDIC do its job. The field staff of FDIC's Division of Supervision (DOS) is responsible for conducting both off-site reviews and on-site examinations of financial institutions. DOS examiners do much more than simply review bank files to verify that the institution's management is running a safe and sound business. There are examination specialists who test computer systems. Others conduct specialized portfolio reviews keyed to the institution's defined business strategy. The integrity of accounting systems and adequacy of internal controls also are examined by DOS specialists. Each bank obtains a rating by the examiners. It is the examiner judgment behind this rating that is relied upon to determine whether a bank is sound or a potential failure, or if an enforcement action is necessary to correct improper banking practices.

The FDIC's Division of Compliance and Consumer Affairs (DCA) also conducts bank examinations, but DCA's specialists review bank compliance with federal laws and regulations intended to promote consumer protection, fair lending and community reinvestment. DCA examiners, for example, determine whether banks are engaging in racial or ethnic discrimination in their loan programs. DCA also operates a consumer hotline. Hotline specialists provide consumers with information on deposit insurance protection and will help callers determine where to file a complaint if they feel their bank is not treating them properly.

The Division of Resolutions and Receiverships (DRR) is the part of the FDIC that is called into action when a bank or savings institution is identified as a potential failure. The DRR staff prepares a detailed financial profile of the failing institution. Potential bidders who might be interested in assuming responsibility for servicing the deposits are identified and invited to submit an offer. If the institution does fail, the deposits are usually transferred to another financial institution and service to customers continues without interruption. If no bank or savings institution wants to assume responsibility for the deposits, DRR pays depositors their money directly, including interest earned. DRR then begins selling the failed bank's loans and other assets to recover funds disbursed by the FDIC to depositors.

The FDIC also has a large legal staff. The Legal Division's lawyers draft regulations and prepare enforcement actions in support of the bank supervision and consumer protection programs. They also prepare contracts for services obtained by the FDIC, assist DRR in their asset sales activities, and help the FDIC manage its own corporate affairs. The lawyers also oversee the FDIC's litigation. The caseload grows dramatically when there are a significant number of bank failures because the FDIC inherits any litigation the bank was engaged in and also must pursue borrowers who defaulted on their loans.

Evaluating economic conditions in the country and how they might affect performance of the banking industry is a task shared by two groups in the FDIC, the Division of Research

and the Division of Insurance. Economists, statisticians and other financial specialists in these divisions monitor the stock and commodities markets, home sales and business activity around the country. Trends are evaluated, and the Division of Insurance attempts to predict bank failure activity. This information is used by FDIC managers in their assessment of staffing needs and in the establishment of bank examination priorities.

The remaining three divisions provide the services and expertise necessary to keep the FDIC running. Housing the FDIC staff, purchasing equipment and services, hiring new employees and providing other corporate support is the job of the Division of Administration. The Division of Finance (DOF) manages the FDIC's money and its accounting systems. DOF also audits banks to ensure correct deposit insurance premiums are being paid to the FDIC. The Division of Information Resource Management (DIRM) oversees the development and operation of the FDIC's computer systems and software. Although there are computer specialists in virtually all of the FDIC divisions, DIRM maintains the FDIC's communication network and provides the expertise necessary for developing new information management systems needed by the FDIC's bank examiners, researchers, legal case managers and finance officers.

### Size

The Federal Deposit Insurance Corporation was created in 1933 to provide insurance protection for depositors if their bank fails. Since 1933, the FDIC has responded to thousands of bank failures, and its insurance protection has been expanded to include accounts in savings and loans associations. All insured depositors of failed banks and thrifts have been protected by the FDIC. Regardless of whether your money is in a savings or checking account, certificate of deposit, money market, IRA or Keogh account, the FDIC now protects up to \$100,000 of your funds.

There is more to the FDIC's mission, however, than standing ready to protect depositors when a financial institution fails. The FDIC also is the Federal bank regulator responsible for supervising certain savings banks and state-chartered banks that are not members of the Federal Reserve System.

As a regulator, the FDIC strives to prevent bank failures by monitoring the industry's performance and enforcing regulations intended to make sure financial institutions operate in a safe and sound manner. Banking, however, is a competitive business. The FDIC's oversight of the industry is not designed to stifle competition or to prevent the failure of banking businesses that cannot compete effectively. Banks fail, and when they do the FDIC is working for you. The FDIC staff is on location at the failed institution, using money from the FDIC insurance fund to promptly reimburse insured depositors. Later, the FDIC staff will recover a portion of this money by selling the failed financial institution's loans and other assets.

Approximately 8,000 people working within nine specialized operating divisions now work in FDIC offices throughout the country. The FDIC's main office is in Washington, D.C. Eight cities host major regional offices. They are: Atlanta, Georgia; Boston, Massachusetts; Chicago, Illinois; Dallas, Texas; Kansas City, Missouri; Memphis, Tennessee; New York, New York and San Francisco, California. There also are more than 80 small field offices throughout the country. Examiners use these when they are not conducting on-site bank examinations.

1. Whose deposits does the FDIC insure?

Any person or entity can have FDIC insurance on a deposit. A depositor does not have to be a United States citizen, or even a resident of the United States.

2. What types of financial institutions are insured by the FDIC?

The FDIC insures deposits in some, but not all, banks and savings associations. FDIC-insured institutions must display an official sign at each teller window or teller station. Insured savings associations display the official savings association (eagle) sign.



Insured banks display either the official bank (FDIC) sign or the official savings association (eagle) sign.



3. What does federal deposit insurance cover?

In the event of a bank failure, federal deposit insurance protects deposits that are payable in the United States. Deposits that are only payable overseas, and not in the United States, are not insured.

Securities, mutual funds, and similar types of investments are not covered by deposit insurance. Creditors (other than depositors) and shareholders of a failed bank or savings association are not protected by federal deposit insurance.

4. What types of deposits are insured?

All types of deposits received by a financial institution in its usual course of business are insured. For example, savings deposits, checking deposits, deposits in NOW accounts, Christmas Club accounts, and time deposits (including certificates of deposit, which are sometimes called "CDs") are all insured deposits. Cashiers' checks, officers' checks, expense checks, loan disbursement checks, interest checks, outstanding drafts, negotiable instruments and money orders drawn on the institution also are insured. Collectively, these types of instruments are referred to as "official checks." Certified checks, letters of credit, and travelers' checks, for which an insured depository institution is primarily liable, also are insured when issued in exchange for money or its equivalent, or for a charge against a deposit account.

5. Does federal deposit insurance cover Treasury securities?

Treasury securities (bills, notes, and bonds) purchased by an insured depository institution on a customer's behalf are not insured by the FDIC. However, they remain the property of the customer. When an insured financial institution is closed and the FDIC is named its receiver, the customer has two options. First, the customer can present a receipt documenting to the FDIC's satisfaction his or her ownership rights. The FDIC as receiver will give the customer a release that the customer can present to a Federal Reserve Bank or the Department of the Treasury to prove ownership. Alternatively, the FDIC as receiver can hold all Treasury securities and make a distribution upon maturity in the same manner and extent as the closed institution would have done.

6. If I have deposits in several different FDIC-insured institutions, will my deposits be added together for insurance purposes?

No. Deposits in different institutions are insured separately. But, if an institution has one or more branches, the main office and all branch offices are considered to be one institution. So, if you have deposits at the main office and at one or more branch offices of the same institution, the deposits are added together when calculating deposit insurance coverage. Financial institutions owned by the same holding company, but separately chartered, are separately insured.

7. How does the FDIC determine ownership of funds?

The FDIC presumes that funds are owned as shown on the "deposit account records" of the insured depository institution. If the FDIC determines that the deposit account records of the institution are unambiguous, those records are binding on the depositor. No other records are considered in determining legal ownership.

Generally, the FDIC will not recognize a fiduciary relationship (e.g., trustee, agent, nominee, guardian, executor, custodian, or conservator) unless the relationship is specifically disclosed in the deposit account records. Also, the details of the fiduciary relationship and the interests of the parties in the account must be ascertainable one of two ways: either from the deposit account records of the depository institution or from records maintained in good faith and in the regular course of business by the depositor, or by some person or entity that has agreed to maintain records for the depositor.

8. What are "deposit account records"?

The "deposit account records" of an insured depository institution are account ledgers, signature cards, certificates of deposit, passbooks, and certain computer records. However, account statements, deposit slips, items deposited, and cancelled checks are not considered deposit account records for purposes of calculating deposit insurance.

9. Is there continuation of deposit insurance coverage after a depositor dies?

Yes. Starting July 1, 1998, for six months after the death of a deposit owner, the FDIC will insure that person's accounts as if he or she were still alive. During this "grace period," the insurance coverage of the deposit owner's accounts will not change unless the accounts are restructured by those authorized to do so. The FDIC applies the grace period only if its application would increase, rather than decrease, deposit insurance coverage.

Example: A and B own a qualifying joint account of \$100,000 for which they each have a right of survivorship. B also has a single ownership (or individual) account of \$100,000 at the same FDIC-insured institution. If A dies, for six months after A's death the FDIC will still insure the A and B account as a joint account, even though B, as A's survivor, has inherited A's ownership interest in the account. Without the grace period, B's increased ownership interest in the joint account would be added to his or her single ownership account and insured to a limit of \$100,000.

10. Does deposit insurance coverage decrease upon the death of one of the co-owners of a testamentary account?

Yes. Each co-owner is entitled to insurance coverage as to each beneficiary only during the co-owner's lifetime. Upon the death of any one of the co-owners, insurance coverage decreases (subject to the "grace period" explained below). When both co-owners of a revocable trust die, the funds in the account are insured as the single ownership funds of the beneficiary. If there are multiple beneficiaries, the funds are insured as joint ownership funds.

Starting July 1, 1998, for six months after the death of a deposit owner, the FDIC will insure that person's accounts as if he or she were still alive. During this "grace period," the insurance coverage of the deposit owner's accounts will not change unless the accounts are restructured by those authorized to do so. The FDIC applies the grace period only if its application would increase, rather than decrease, deposit insurance coverage.