

## **IMPORTANT CHANGES CONCERNING FEDERALLY INSURED DEPOSITS**

In October, 2008 as part of the Emergency Economic Stabilization Act of 2008 (EESA), the FDIC temporarily raised the basic limits on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. This increase in deposit insurance coverage will return to a minimum of \$100,000 after December 31, 2009.

In response to further turbulence in the financial markets, the Treasury Department created an additional program to address the public concern with transaction accounts and money market accounts; the Temporary Liquidity Guarantee Program (TLGP).

### **SAVINGS AND CERTIFICATE OF DEPOSIT ACCOUNTS**

The TLGP does not increase the federal insurance limits on savings accounts or Certificate of Deposit accounts. The FDIC insurance on these accounts is \$250,000 per depositor, as provided by the EESA. The TLGP also does not apply to certificates of deposit purchased through the CDARS program.

### **NEGOTIABLE ORDER OF WITHDRAWAL (NOW) ACCOUNTS – CHECKING ACCOUNTS**

The TLGP also includes the Transaction Account Guarantee Program (TAGP) that provides for unlimited deposit insurance on “non-interest bearing” transaction accounts. In the Final Rule for the TLGP published on November 28, a non-interest bearing account includes NOW accounts for organizations like condominiums and cooperatives that are exempt from Regulation Q. At the election of the financial institution, a non-interest bearing account may pay a maximum of 50 basis points (0.50%) per annum. This unlimited deposit insurance coverage will continue through December 31, 2009. Therefore, the operating accounts that receive less than .50% interest now have unlimited FDIC insurance.

### **MONEY MARKET FUNDS**

In November 2008, the Treasury Department extended the Temporary Guarantee Program for Money Market Funds (TGP). The TGP provides unlimited deposit insurance for Money Market Funds based upon account balances as of September 18, 2008. Any increase in an account balance occurring after September 18, 2008 is not covered. Thus, if a Money Market Fund had a balance of \$400,000 on September 18, 2008 and a balance of \$600,000 on December 18, 2008, only \$400,000 would be insured. Inversely, if the balance decreases to \$200,000 on December 18, 2008, only \$200,000 would be insured. However, if additional funds are invested in the same Money Market Fund before the expiration of the TGP, the insured amount increases to cover the entire account balance up to a limit equal to the September 18, 2008 balance. Continuing the example above, if the balance fell to \$200,000 on December 18, 2008 and an additional \$300,000 is invested on January 18, 2009, \$400,000 (the September 18, 2008 balance) of the then \$500,000 in the account will be insured by the TGP. The unlimited deposit insurance for Money Market Funds expires on April 30, 2009, but may be extended until September 18, 2009 by the Secretary of the Treasury.

## **PARTICIPATING FINANCIAL INSTITUTIONS**

Eligible institutions include FDIC-insured depository institutions, any U.S. bank, holding company or financial holding company, and many U.S. savings and loans. All eligible institutions are participating in the rules established under the TLGP unless they have taken the necessary steps to opt-out. A list of institutions that opted out of the TLGP is provided by the FDIC (<http://www.fdic.gov/regulations/resources/TLGP/optout.html>).

## **RECOMMENDATIONS:**

1. **Operating Accounts:** Should be placed with institutions that are participating in the Temporary Liquidity Guarantee Program. This will provide unlimited FDIC insurance on these accounts through December 31, 2009. *The following banks qualify per the above recommendation and have programs compatible with The Continental Group Lockbox Operations: CNL, Colonial, US Bank, Union Bank.*
2. **Reserve Funds:** For Associations looking for maximum security on their Reserve Funds in excess of \$250,000 and willing to accept below market interest rates, accounts can be established pursuant to the TAGP at a maximum interest rate of .50% per annum that have unlimited FDIC insurance.

Boards seeking a market interest rate and a secure investment should open accounts with Banks offering FDIC insurance on balances up to \$250,000 and excess deposit insurance or pledges of collateral for balances over \$250,000. *The following banks qualify per the above recommendation and have programs covering deposits above the FDIC limits: CNL Bank, Colonial, US Bank, Union Bank*

*Information about each of the recommended banks can be obtained from the individuals below or your local management office.*

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## **FREQUENTLY ASKED QUESTIONS**

### **What association accounts have unlimited FDIC coverage and for how long?**

Operating accounts with interest rates of less than 0.50% per annum have unlimited FDIC deposit insurance coverage through December 31, 2009. FDIC coverage for operating accounts that pay interest above the 0.50% threshold is subject to the current \$250,000 limit per association.

### **What FDIC Insurance is available for money market accounts offered by Investment Firms like Merrill Lynch and Smith Barney?**

The FDIC coverage for Money Market accounts is only for those funds on deposit as of September 18, 2008 and is scheduled to expire on April 30, 2009.

### **What association accounts are limited to \$250K FDIC coverage and for how long?**

Savings accounts with interest over .50% and Certificate of Deposit accounts are limited to \$250,000 of FDIC coverage. This coverage lasts until December 31, 2009, at which point the coverage amount will return to a minimum of \$100,000.

### **What type of association accounts are not covered by the FDIC programs?**

Stocks, bonds, mutual funds, life insurance policies, annuities and municipal securities are not covered by FDIC insurance.

### **How do the new guidelines impact deposits placed with a CDAR's program?**

Accounts opened within a CDAR'S program are not impacted by the new guidelines. CDAR's was designed to provide security for balances above the FDIC limits. CDAR's is a program managed by banks who are members of an independent network. When you place a large deposit with a network member, that institution uses CDARS to place your funds into certificates of deposit issued by banks within the network. Deposits within the program use one bank as the point of contact who then distributes your deposits in increments of less than the standard FDIC insurance maximum to other member banks to ensure association deposits at any individual member institution are covered by the FDIC.

### **What is Excess Deposit Insurance and which Banks offer this protection?**

Excess Deposit Insurance provides insurance for deposits on amounts exceeding the applicable FDIC coverage limits (currently \$250,000) and is offered by a participating partner US Bank and Union Bank. The excess deposit insurance for both Banks is provided by Travelers.

### **What is a collateral pledge and how does it protect our balances?**

A collateral pledge is where the Bank deposits with the regional Federal Reserve Bank government securities equal to the associations balances over the FDIC Insurance limit. The association will receive on their monthly statements the identification numbers of the securities which serve as collateral. This service is offered by a participating partner CNL Bank.