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Safety first: Banks use FDIC coverage as marketing tool

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Dennis McCoy | Sacramento Business Journal

The River City Bank branch on Howe Avenue in Sacramento touts its FDIC-insured status.

Not long ago, banks and credit unions touted their products, rates and services.

Now, it's all about safety.

The spectacular failure of IndyMac Bank last month, and a few failures that followed, raised concerns that federal regulators will let a bank fail. Any customer with a deposit in a bank regulated by the Federal Deposit Insurance Corp. is guaranteed their money if a bank fails. But questions about how much money is insured and in what types of products still caused enough alarm that IndyMac customers lined up around the block. Now, banks are touting their own health to an increasingly fidgety public.

"There is concern, and there is just cause for it. There are some banks that are having problems," said Anker Christensen, chief financial officer of River City Bank.

"Stability of financial institutions is going to be a focus for consumers for a considerable time," he said. "The truth is that the vast majority of banks are safe, probably 95 percent or even higher, but the perception is that half of them are about to fail."

Even if an insured bank fails, its customers get quick access to insured deposits. With the IndyMac failure, the FDIC had a replacement bank operating Monday after taking it over the previous Friday. When First Heritage Bank of Newport Beach failed a week later, its operation was immediately transferred to another bank.

What you can count on

The FDIC insures deposits up to \$100,000 in a bank. But a customer can have an additional \$100,000 insured in the same bank if the deposit is under a different

name in a different account. Also, each beneficiary in a family trust is insured up to \$100,000. Individual retirement accounts (IRAs) are insured up to \$250,000.

For customers with more than \$100,000 in a bank, bankers are helping them navigate strategies for keeping all of it insured.

“Any investment prices risk,” said Kent Steinwert, president of **Farmers & Merchants Bank**, based in Lodi. “If you are getting the highest rate, you are facing the highest risk.”

With big bank failures making headlines, people want to know what is and what isn't covered, said Rick Hagstrom, chief operations officer of **Tri Counties Bank**. “We're not looking at it as marketing as much as we are trying to be more educational about deposit insurance,” he said.

Some banks direct customers to the FDIC's Web site, which features answers to common questions.

“We don't do that. ... All of our employees understand and explain managing FDIC accounts,” Hagstrom said.

Attracting bigger players

Many banks, including Tri Counties, offer up to \$50 million in FDIC insurance in one account using CDARS, a service that spreads the money over many insured institutions. The account pays slightly less than a basic certificate of deposit but offers the convenience of automatically disbursing money into accounts at many banks.

CDARS is proving to be popular with people managing large amounts of money.

“If you want to do it on your own, you can. It can be done, but it is a lot of work,” Hagstrom said.

El Dorado Savings Bank sent out a flyer to customers informing them it not only has all the regulatory capital it needs, but it also has two and a half times its required capital. The more capital a bank has in relation to its loans, the safer the bank.

F&M Bank also has high capital in relation to its loans.

“We rarely have the highest rates,” Steinwert said. “We have rates in the middle, but we have customers who are aware of our reputation and are aware of our safety who have far more than the insured amounts in their accounts because they are comfortable with us.”

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