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Town Deposits

Recent Changes to FDIC Limits and Coverage

By Rebecca Otto, State Auditor

State law requires that deposits of town funds in banks or credit unions be protected by either deposit insurance, bond, or pledged collateral. Deposit insurance can be provided by either the Federal Deposit Insurance Company (FDIC), for banks, or the National Credit Union Administration (NCUA), for credit unions. This article contains information about recent changes in FDIC deposit insurance coverage, which impacts town deposits.

Changes to FDIC Coverage

Over the past two years there have been a number of significant changes to FDIC coverage.

Currently, the FDIC insurance limit on deposits is $250,000, a permanent increase from the previous limit of $100,000. Towns, like other public entities, are entitled to two separate coverages if the bank they use is in Minnesota; one coverage of up to $250,000 for time deposits, and a separate coverage of up to $250,000 for demand deposits.

The main difference between “time” accounts and “demand” accounts is notice of withdrawal of funds: for time accounts, the bank reserves the right to require seven days' notice prior to withdrawal, while demand accounts don't carry that requirement. If you aren't sure which type of account you have, review the customer account contracts with your bank: most banks now offer these documents for review on the Internet. This extra coverage is only available if your town uses a Minnesota bank; if you deposit funds with a bank outside the state, you are only entitled to $250,000 worth of coverage for all your accounts, whether they're time accounts or demand accounts.

In another change, the FDIC now provides unlimited coverage for town funds in a "transaction" account that pays no interest. This is in addition to the regular FDIC coverage. Transaction accounts would include any type of checking account, or any account that can be accessed by an ATM machine or used to make automatic withdrawals. An account can only fit into this category if it does not pay interest. The transaction account can earn “fee-reducing credits” from the bank, but these credits can never be for past services and must never be convertible to cash. The opportunity for transaction account coverage from the FDIC is not permanent, and will expire at the end of 2012.

There are different rules for deposit insurance provided to credit unions by the National Credit Union Administration (NCUA). Accounts, including government accounts, are insured up to $250,000. Additional information can be found at the NCUA website, http://www.ncua.gov/Pages/default.aspx.

Determining Pledged Collateral

Once you figure out the amount of deposit insurance your town has on its bank deposits, you can determine if the bank has pledged enough collateral. The FDIC has put together a coverage calculator for depositors, including government depositors, known as EDIE (which stands for Electronic Deposit Insurance Estimator). EDIE can be found at the FDIC website, https://www.fdic.gov/edie/index.html. The website offers a step-by-step video tutorial with guidance on using the EDIE calculator. For any town treasurers who are concerned about deposit insurance and pledged collateral, this is a good place to start.

For more information on this topic, the Office of the State Auditor has a Statement of Position entitled FDIC Rules: Temporary and Permanent. To view the complete Statement, go to our website at www.auditor.state.mn.us, go to the menu item “For Local Officials”; click on “Statements of Position”; go to the heading "Deposits & Investments", and you will find the Statement.

In these times of record bank closures, periodic review of your town’s bank account security is well worth the time and effort.