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U.S. Banking Crisis: Should You Be Worried?

Most individuals don't need to worry about funds they have in their bank or credit union.

Unable to meet withdrawal requests triggered by depositor panic, Silicon Valley Bank (SVB) was placed into receivership by the Federal Deposit Insurance Corporation (FDIC) on March 10, 2023. SVB represents the second-largest bank collapse in U.S. history.[1] Two days later, the FDIC announced the closure of a second bank — Signature Bank — and that all depositors of both banks would be paid back in full. (The FDIC more recently announced that New York Community Bancorp's Flagstar Bank would take on nearly all of the former Signature Bank's deposits.)[2]

With the media focused on these and other related stories, you might be concerned about your own deposit accounts. The good news is that most individuals don't need to worry. Here's why.

FDIC insurance

Generally, deposit accounts at banks and savings and loans insured by the FDIC are insured up to $250,000 per depositor for each ownership category (explained below) per bank. FDIC insurance covers traditional deposit accounts, including checking accounts, savings accounts, money market deposit accounts, and certificates of deposit. It covers both principal and any interest accrued as of the date that an insured bank closes.

FDIC insurance does not cover investments like mutual funds, stocks, and bonds, or life insurance policies and annuities, even if they were bought through an FDIC-insured bank. It also does not cover U.S. Treasury securities or safe-deposit boxes.

Accounts with different categories of ownership may be independently insured. For example, a joint deposit account qualifies for up to $250,000 of coverage for each person named as a joint owner. That coverage is in addition to the $250,000 maximum coverage for each person's aggregated single-owner accounts at that bank. Retirement accounts are considered a separate ownership category as well, though it's important to note that coverage does not apply to any securities held in the retirement accounts. The FDIC has an interactive tool to help you calculate the total coverage you qualify for at an institution.[3]

Most banks are insured by the FDIC, and most advertise that fact. If you're not sure, though, you can check on the FDIC website.[4]

Most credit unions have insurance as well

Accounts at most credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF). The fund is administered by the National Credit Union Administration (NCUA), which like the FDIC, is an independent agency of the federal government and is backed by the full faith and credit of the U.S. Treasury. Some credit unions are not federally insured but are overseen by state regulators and may have private credit insurance.

NCUSIF insurance is similar to FDIC insurance; it covers accounts, including regular share accounts, share draft accounts (similar to checking), money market deposit accounts, and share certificates, but not investment products sold through a credit union. It covers single-owner accounts up to $250,000 per depositor, per insured institution. As with bank deposit accounts, independent coverage may be available for different categories of ownership, including jointly held accounts and retirement accounts. You can estimate your existing coverage by using the calculator at the NCUA's website.[5]

What you should do

What you should *not* do is panic. Given the protections in place, you may not need to worry about your bank or credit union funds.

What you *should* do is review your accounts in light of the coverage caps. If the amount you have on deposit with a single insured bank exceeds the maximum coverage provided, consider whether establishing an account with a different ownership category is an option. For example, if you and your spouse have a joint account, you qualify for up to $500,000 ($250,000 each) in coverage for that joint account. Suppose each of you also opens a separate account with the same bank. In that case, you could each qualify for up to an additional $250,000 in coverage, because the separate accounts are a different category of ownership than the joint account. You can also spread funds out among two or more banks or credit unions. If you have specific questions about your coverage, you can always contact your bank or credit union.

1) *The Wall Street Journal,* March 16, 2023

2) FDIC, March 19, 2023

3) The FDIC interactive tool can be accessed at https://edie.fdic.gov/

4) Check for FDIC membership at https://banks.data.fdic.gov/bankfind-suite/bankfind

5) The NCUA calculator can be accessed at https://mycreditunion.gov/share-insurance-estimator-home

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