

FDIC Transaction Account Guarantee Program Business Account Considerations

Blackhawk Bank has elected to participate in a program sponsored by the Federal Deposit Insurance Corporation (FDIC) which adds an additional layer of potential insurance to all non-interest-bearing transaction accounts and low interest rate NOW accounts known as the **Transaction Account Guarantee Program**. The results of the added insurance should prompt businesses to re-evaluate their banking practices to ensure they are optimally managing their deposit accounts under the new guidelines.

The FDIC's goal is to enhance confidence in the safety and soundness of non-interest-bearing transaction accounts generally held by businesses for the purposes of payroll processing and other payment processing functions. Coverage under the new program, funded through insurance premiums paid by participating financial institutions, in addition to the coverage announced under the Emergency Economic Stabilization Act of 2008. That Act temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor; that coverage has been extended through December 31, 2013. The increased coverage provision under the **Transaction Account Guarantee Program** has been extended and is scheduled to expire on June 30, 2010.

Blackhawk Bank is a participant in both programs. Following are answers to many of the questions consumers and businesses may have regarding the programs.

Q: *Will all banks offer unlimited insurance on non-interest transaction accounts and low interest NOW accounts:*

A: No, each bank has the option to buy into the unlimited insurance program for non-interest-bearing accounts. Blackhawk Bank has elected to participate. You should check directly with other banks as to their decision. Every insured depository institution must post prominent notices in the lobbies of their main office and branches indicating whether or not they are a participant.

Q: *I have less than \$250,000 on deposit. Will this affect me?*

A: No. At this time, the FDIC standard insurance offered by all banks covers up to \$250,000 through December 31, 2013. The standard insurance also covers interest-bearing accounts.

Q: *What do you mean by non-interest-bearing account and NOW accounts?*

A: Under this program, the definition of non-interest-bearing accounts includes commercial Demand Deposit Accounts, including those with earnings credit rates to offset service charges. Also included in the definition are NOW accounts where the current rate is 0.50% or less where the rate is expected to remain at or below this level through June 30, 2010.

Q: *I currently have a sweep feature. Is the swept amount covered by the new insurance?*

A: No. Only non-interest-bearing accounts, NOW accounts paying less than 0.50%, and some trust accounts are covered. Your swept amount retains all the safety characteristics as before, but does not benefit from the increased FDIC insurance.

Q: *Why should I consider changing my cash positioning strategy?*

A: The added insurance may change your opinion of various risk alternatives. For example, if you were using a sweep account to keep cash below the \$250,000 FDIC limit at your bank, you may now consider keeping additional cash in your transaction account.

Q: *Wouldn't keeping additional cash in a non-interest-bearing account result in lower interest earnings?*

A: Maybe. If you are paying cash to cover bank service charges while maintaining a low balance, you may be better off maintaining a larger balance and earning credit to offset fees. For example, if the money market option is paying less

than the earnings credit rate and your earnings credit is not currently covering all service charges, increasing the balance in the DDA may reduce your overall cost.

Q: *What happens after December 31, 2013?*

A: The standard insurance amount of \$250,000 per depositor is in effect through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor for all account categories except IRAs and other certain retirement accounts, which will remain at \$250,000 per depositor.

Q: *Do I need to do anything to become eligible for the Transaction Account Guarantee Program?*

A: No, however your bank must elect to participate in the program. Blackhawk has elected to participate. If you have deposits in another institution you should check with your bank to ensure their participation. Every insured depository institution must post prominent notices in the lobbies of their main office and branches indicating whether or not they are a participant.

Q: *Why would a bank choose not to participate?*

A: There is an added expense from the FDIC that is charged to your bank. The FDIC has published on their website a list of banks that have opted out of the program. The FDIC website is www.FDIC.gov.

Q: *The Board of my (company, organization, municipality) has mandated a very conservative investment and banking policy. We have been using a money market account and repurchase agreements to limit our exposure to our bank. Which is safer?*

A: The FDIC is backed by the full faith and credit of the United State Government. This is considered the highest level of safety available.

Q: *What else should I consider?*

A: Safety of funds is a top consideration for many organizations. With the added protection that may be available, you also should consider the best overall yield on your cash position. In some cases, this may lead to increasing non-interest-bearing deposits while reducing or eliminating sweep features. In other cases, combining accounts into banks that have opted into the insurance may reduce the time and money spent on maintaining multiple bank relationships. In any case, you should explore your options with your advisor and know which insurance coverage protects your deposits.

Conclusion: The FDIC Transaction Account Guarantee Program offers unlimited insurance on certain accounts if your bank has chosen to participate. Almost all organizations should be evaluating their banking relationships and cash positioning strategies. In many cases, the new FDIC program may provide the opportunity to gain safety for your funds while increasing your bottom line.