

# If your Bank goes bust what should you do?

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Bankrupt banks are a reality, no longer a rare occurrence!

Since our recent research has shown that several banks are heading in to trouble I have prepared the following report.

That's right! Your apparently secure bank can make poor business decisions. People used to think that would be impossible, but facts show that all too often banks make mistakes, like the numerous bad loans that eventually crushed major long-established flagship financial institutions recently.

If you were not aware of the savings and loan crisis and the scandals of the 1980s and 1990s, the recent vulnerability of banks might have come as an unwelcome surprise.

Should your bank get into trouble, don't panic! This perhaps is the best advice I could offer members. Simply remain calm/collected and think about the next steps and you'll stay on track, even if your bank is falling by the wayside.

## **Bank emergency checklist - what should be done**

### **1. If your account is held in the USA check the FDIC Coverage**

**First:** Check if your bank deposits are covered by FDIC insurance. Should you move your account?

**I would strongly point out that the terms vary as does the cover provided. I would suggest that all members should check now just how much would be lost if their bank failed. If you do not know where to do a health screen on your bank, please contact us to find out and ensure that your risk is minimal.**

That said at this point I can say, that most accounts in USA at traditional banks, large or small, are FDIC-insured, so your money is safe even if the institution shuts down. Be advised that the FDIC deposit insurance only covers your first \$250,000 in deposits. Under FDIC rules, your bank will keep operating normally until it transfers its assets to a purchasing bank. You'll have time to withdraw your funds and switch banks without risk.

If your chosen bank does not have deposit insurance then you'll need to obtain a receiver's claim.

### **2. Filing a Receiver's Claim**

**If you do not have FDIC insurance, or if you have more than the \$250,000 that deposit insurance usually covers, you will have much extra work to do to recover your cash.**

A receiver's claim is essentially a claim that the bank owes you money. The tables turn, and now they're the ones in debt to you. Your claim will be one of many that individuals and businesses will file against the bank when it goes under or is taken over

As the bank's assets are liquidated, they'll send you payments toward the total amount they owe you. It will be a slow and arduous process and still you may not recover every dollar, but it is your only chance to recover any of your cash.

**Members should heed my warning now:** check your bank's status and only use banks with FDIC insurance! Stay below the deposit insurance limit (using more than one bank if necessary). **IF NOT PREPARE FOR POSSIBLE LOSSES!** My research clearly shows that many US banks are still in trouble and could hit hard times soon.

### **3. Faith may be needed here**

Recently members must have seen or heard of banks going out of business, but they do not just go away. You will still have access to your money but with some restrictions and your cheques will still go through. If you bank with a FDIC bank they can't just close its doors and lock you out.

Basically what happens is the government steps in and runs the bank as if nothing had ever happened. Don't worry your cheques won't bounce! Your ATM card will still provide access to cash but do not forget the coverage of \$250,000. Any excess of this limit will be lost!

Business will continue under the FDIC's direction. Members should note that there is not going to be a "run on the bank" scenario like the one the U.S. witnessed during the late 1920s and early 1930s.

### **4. Meet Your New Bank**

When a bank is going under and the FDIC seizes control, they usually have another bank lined up to purchase and take over the failing bank's assets. If they cannot find a buyer, the FDIC will close the bank and simply pay out the losses covered by deposit insurance.

The agonizing part will be that there is no specific deadline by which you are guaranteed to receive your money. FDIC guidelines have the agency aiming to get you a cheque within a few days. That leaves you (hopefully) with only a short period of time without access to your money. Actually they say two days is the norm, but noting the manner in which the rules are changing take care! If a new bank purchases your now-defunct institution, you will follow some simple steps depending on which products you hold.

**For Loan Products:** You must keep up with your payments for any loans or lines of credit that you have with the bank. Bank failure is not an excuse for missing payments; you'll just owe the money to a new lender. A failed bank's loan products are very valuable to other banks, so another business will quickly buy up your loan and send you new paperwork and instructions on where to send your payments. Warning they will charge late fees and penalties even during the transition, but keep on paying as if your bank never failed.

**For Deposit Products:** When a new bank takes over your account, read the fine print on their account agreements. You will probably have a new fee structure and maybe even new account minimums. If the new policies are too restrictive or expensive, you can move your funds to a different account type or find a new bank.

**For Automatic Deposits:** What happens to your direct deposits like your pay cheque or social security payments? Since these are of critical nature, the FDIC will immediately appoint a new bank to temporarily accept these payments. You may get an update in the mail, but the best way to get this information is at your local bank branch. It is the one time it will actually be worth going to your bank in person after the failure, but hard to do if your based overseas.

## **Final Word**

Of course the best way to survive the ordeal of a failure is to avoid problems in the first place.

Do your banking with safe institutions only, as I said above, and remember many banks are still exposed to bad loans and other toxic asset classes today, as much as they were when several such institutions went into trouble recently.

Find one that is safe enough to stay in business, but since you cannot always predict mistakes, at least make sure that you choose a bank that is insured by the FDIC.

If you are approaching the maximum for FDIC coverage, open a new account with another insured institution.

**Worried now about how your bank is doing? Take a look at your bank's health rating and, if you do not know how, please e-mail us.**

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