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## System lets you keep more in bank with FDIC coverage

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Suppose you had a lot of "chicken money" -- money you can't afford to lose. It's money that belongs in CDs in a bank, or perhaps in a money market fund or in Treasury bills. But bank deposits above \$100,000 are not insured. Astoundingly, the FDIC reports that out of \$5.17 trillion in bank deposits, \$1.7 trillion is uninsured.

Many people, especially senior citizens with a memory of bank failures in the 1930s, pay very close attention to the FDIC insurance rules that limit coverage to \$100,000 per separately titled bank account. In fact, you don't have to have a very long memory to be concerned. In the 1980s, many S&Ls and banks that failed left unwary depositors with losses on accounts above the insured limits. (Yes, it's possible to insure up to \$1 million in one bank by using a combination of joint accounts and trust accounts, but this is cumbersome, and many people misunderstand the complex ownership rules.)

That's what makes a new service called CDARS so appealing. Started by former U.S. Comptroller of the Currency Eugene Ludwig, this program has created a network that, in effect, allows individual customers to have up to \$5 million in FDIC coverage for accounts that are managed through one bank. When the former top banking regulator comes up with a plan like this, you know it passes muster.

Says Ludwig, who was in Chicago Wednesday to talk to

bankers, "I'm really excited, because we created a win-win product. It gives customers convenience, plus the opportunity to earn the higher rates and service that come with larger deposits. And it gives the community bank liquidity to support their community because the money stays in this locale. And for the banking system, it's great because retail deposits tend to stay put and thus stabilize the system."

### How does it work?

Suppose you are fortunate enough to have \$500,000 in savings that you want to keep in your bank. If your bank is part of the CDARS network, it will use the network to distribute portions of your cash -- perhaps in five smaller chunks to stay under the insured limit -- to other bank members of the network. This saves you the time and trouble of running around town to open different accounts.

But every time your bank buys a CD for you, the other banks in the network simultaneously deposit the exact same amount back into your bank in separate accounts, where it will fall safely under the \$100,000 insurance limits. So, in effect, the money never really leaves your bank, but now it is *all* insured.

All of the accounts at the other banks are in your own account number, and earning the same rate. You get one IRS 1099 form for the interest you've earned, and it's all completely confidential. You can veto use of a bank in which you already have money on deposit. But the receiving bank does not know your name or have any other personal identification.

You're still a customer of your own bank, and with half a million dollars on deposit there, you can

demand the highest rates and a lot of personal attention!

### Why do banks offer CDARS?

That's a very good question, and one I put to Tom FitzGibbon, senior vice president and chief retail banking officer of MB Financial bank, which is using the system.

Says FitzGibbon, "All the time, we see customers who have accounts with balances that creep up over \$100,000, and they are concerned about having FDIC insurance. So they move that excess balance to some other financial institution.

"With this service, we can keep the entire relationship intact, while providing the enhanced value of FDIC insurance for their account above \$100,000."

Since May, even without advertising or promotion, FitzGibbon says he's been able to retain 65 customer accounts that might have been trimmed to stay under the \$100,000 FDIC-insured cap. That gives the bank a chance to cross-sell other products and services and retain a valued relationship.

There are 26 banks in the network in Illinois, and more than 500 across the nation. You can check the list of banks at [www.CDARS.com](http://www.CDARS.com).

So if you have chicken money, now you can sit on a larger, very safe nest egg -- insured by the FDIC. And that's the Savage Truth.

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